

IN THE COURT OF THE TRANSPORT TRIBUNAL
TRANSPORT ACT, 1947, AS AMENDED BY TRANSPORT ACT, 1953

IN THE MATTER OF THE APPLICATION OF THE
BRITISH TRANSPORT COMMISSION (1958 No. 1)



To Confirm the
British Transport Commission (Passenger)
Charges Scheme, 1958

THURSDAY, 5TH FEBRUARY, 1959

SEVENTH DAY



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1966, 1967, 1968, 1969, 1970, 1971, 1972, 1973, 1974, 1975

PROCEEDINGS OF THE TRANSPORT TRIBUNAL

THURSDAY, 5th FEBRUARY, 1959

PRESENT :

HUBERT HULL, Esq., C.B.E. (*President*)

J. C. POOLE, Esq., C.B.E., M.C.

H. H. PHILLIPS, Esq., O.B.E.

Mr. E. STEWART FAY, Q.C., and Mr. PATRICK BROWNE (instructed by Mr. M. H. B. Gilmour, Chief Solicitor to the British Transport Commission) appeared on behalf of the British Transport Commission.

Mr. EDWARD MILNER HOLLAND, Q.C., C.B.E., Mr. LEON MACLAREN, and Mr. GEORGE MERCER (instructed by Mr. J. G. Barr, Solicitor to the London County Council) appeared on behalf of the London County Council, Hampstead Borough Council and the Islington Borough Council.

Mr. B. J. MACKENNA, Q.C., and Mr. D. A. GRANT (instructed by Mr. Kenneth Goodacre, T.D.) appeared on behalf of the Middlesex County Council, Berks. County Council, Bucks. County Council, Hertford County Council and Surrey County Council.

Mr. DUDLEY COLLARD (instructed by Mr. E. R. Farr) appeared on behalf of the Barking Borough Council and the South Essex Traffic Advisory Committee.

Mr. LEON MACLAREN and Mr. GEOFFREY RIPPON, M.P. (instructed by Mr. Vernon Lawrence, O.B.E.) appeared on behalf of Anglesey, Cambridge, Cheshire, Cumberland, Denbigh, Dorset, Durham, Flint, Glamorgan, Hampshire, Isle of Ely, Isle of Wight, Lancs., Leicester, Merioneth, Monmouth, Norfolk, Northampton, Nottingham, Oxford, Soke of Peterborough, Somerset, Stafford, West Sussex, Worcester and Kent County Councils.

Mr. D. A. GRANT (instructed by Mr. R. Webster Storr) appeared on behalf of Beckenham Borough Council.

Mr. GEOFFREY RIPPON, M.P., and Mr. ROY CALVOCORESSI (instructed by Mr. G. E. Smith) appeared on behalf of West Ham County Borough Council, East Ham County Borough Council, Croydon County Borough Council, Walthamstow Borough Council and Wanstead and Woodford Borough Council.

Mr. S. H. NOAKES (instructed by Mr. N. P. Lester) appeared on behalf of Hastings Borough Council.

Mr. A. E. TELLING (instructed by Messrs. Radcliffe & Co.) appeared on behalf of the London Passengers' Association.

Mr. P. T. LEWIS (instructed by Messrs. Gaby Hardwicke & Co.) appeared on behalf of the Hastings, Bexhill & District Season Ticket Holders Association.

Mr. ARCHIBALD GLEN, Town Clerk, appeared on behalf of the Southend-on-Sea County Borough Council.

Mr. F. A. RULER, represented the Federation of Residents' Associations in the County of Kent.

Mr. D. J. D. WELLUM, represented the Benfleet & District Railway Travellers' Association.

Mr. JOHN MAGUIRE, F.C.I.S., represented the United Commercial Travellers' Association of Great Britain and Ireland.

Miss DOROTHY D. FORSTER, represented the Walthamstow Trades Council.

Mr. G. A. BAGNALL, represented the Herne Bay Urban District Council.

(*President*): I said yesterday that I was a bit doubtful about one day next week; we shall sit on Monday, Wednesday and Friday.

Mr. WISHART INGRAM WINCHESTER, recalled.

Cross-examination by Mr. RIPPON, continued.

1762. Mr. Winchester, you will remember that when we concluded yesterday afternoon we had just begun to discuss your researches into the other nationalised industries in relation to their provisions for self-financing?—Yes. Perhaps I might just make this comment: You refer to the "other nationalised industries"; the British Transport Commission is the nationalised part of an industry, and that is quite an important difference. All the other nationalised industries are nationalised as a whole, but transport is nationalised as to a part. It is quite a different situation.

1763. So to that extent the other nationalised industries are not comparable?—No, in so far as their competition is not so strong.

1764. I am much obliged to you for that explanation. I was referring to your answer to Question 232 on page 54 of the transcript of the Second Day; in that question Mr. Fay put to you: "Have you also investigated such materials as you could find about the other nationalised industries"?—Yes.

1765. I was only using the phrase "other nationalised industries" in the same sense as Mr. Fay was using it?—Yes; it is a phrase which one tends to accept, forgetting the difference.

1766. You replied to that: "Yes. I must say first of all that the record of the nationalised industries is very different from the record of the limited liability companies; none of these nationalised boards has so far been

able to make a more than modest provision for self-financing; they nearly all realise it in varying degrees of force". Then you were asked: "What has been the main reason?" and you replied: "The main reason has been the great emphasis which has been placed on price restraint". Yesterday I put a few questions to you on the subject of non-profitability; now I would like to turn to this question of price restraint. In support of your case you are relying partly on an extract from a speech of Sir Oliver Franks?—Yes.

1767. You only referred to it in your evidence in general terms, but it is quoted on Page 19 of the transcript of the First Day at the bottom of the second column of that page. Sir Oliver Franks made a statement as Chairman of Lloyds Bank in connection with the bank's accounts for 1956, and he said this: "... the weak financial position of the nationalised industries has remained an unsatisfactory feature of the situation. Nobody questions the need for very heavy investment outlays to improve the capital equipment of these basic industries. What may be criticised is pricing policies that render the public corporations as a whole incapable of providing even for the replacement of capital used up in their current operations, far less of financing new capital expenditures". Would you agree that Sir Oliver was speaking then in a period of severe inflation?—Yes, it was more severe inflation then.

1768. You are not founding your argument in this Inquiry upon inflationary trends in costs, are you?—I am

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[Continued]

trying to put principles which seem to me to be applicable in any circumstances—at least, in any reasonable range of circumstances.

1769. But you are not suggesting in this Inquiry that there is any argument that you should raise your fares because of a general policy of price restraint?—No; I am saying that that is the reason why the nationalised industries have not managed to do what many people think they ought to be doing.

1770. And do you also agree that this argument was a general argument not particularly direct to the British Transport Commission?—Yes.

1771. Would you agree that even in 1956 there was a considerable difference between the financial position of the various nationalised industries?—Yes.

1772. In the electricity and gas industries, for example, would you agree that demand was rising?—In the electricity industry certainly; I do not know the facts about the gas industry.

1773. And the British Transport Commission, both inside and outside London, then as now, were facing a position of falling demand?—I am not speaking of the British Transport Commission in the context of those arguments; I am speaking about London Transport and the London Area.

1774. Does the general demand apply to the Commission equally as to the finances of London Transport?—Well, there is a falling demand in the freight field. The incidence in the demand in the passenger field is different. The demand on London Transport is rising, and on the British Transport Commission services generally.

1775. But it is still below the 1956 level, just as 1956 was below the 1948 and 1951 level?—The 1948 level is irrelevant, as Sir Reginald has pointed out.

1776. Yes; that is why I took 1951 as an alternative?—The same argument applies to 1951, but perhaps with slightly less force.

1777. All I am putting to you is that it is quite possible that the general arguments which Sir Oliver and others advanced on the subject of self-financing apply far more strongly to an industry where demand is rising, where price can be easily obtained, than to an industry where demand is falling?—I would not have thought that was the basic problem. It certainly would not apply to an industry where the price could not be raised, but in that respect the London position is that if it is proper to charge the price the price is obtainable.

1778. You do not think we have reached the level of the "psychological fare" in London yet?—I think that is hardly a precise definition.

1779. It was Sir Reginald's?—Yes, but not used as a definition of a particular level of fare.

1780. Then you go on to quote from a report of the Federation of British Industries on Nationalisation which was published in November, 1958?—Yes.

1781. And you referred to Paragraph 38, which says: "... it is generally agreed that any prudently run business must somehow provide for the replacement of assets at a realistic figure—not one which is of little more than historical interest." And then you referred to Paragraph 49, which says: "Apart from the point that provision for depreciation is shown to have been inadequate it is clear that the failure to cover the national interest is served by low prices of essential services irrespective of cost or to insistence by the Government of the day on postponement of price increases which from time to time a nationalised industry has proposed. If a nationalised industry sells below cost it is the general body of taxpayers not the users of the product that have to pay. And 'making up the difference' in this way has the additional demerit that it can cover up inefficiency." Would you agree that the Federation of British Industries in that report were really making some general observations about prices, costs and inflation?—They are making some general observations about prices and costs, yes; I do not remember about inflation.

1782. If you look at Paragraph 53, you will see that they went on to say: "Prices should fully cover costs and if they do not somebody has to pay the difference. This does not mean that past increases in nationalised industries'

prices were all justified; still less that a further increase is now to be advocated. The key to the maintenance of a desirable level of prices is the effective control of costs. Industry properly wishes coal and transport, for example, to be low in price; but for this to happen, and to last, they must be low in cost"—Yes.

1783. So it is clear, is it not, that the Federation of British Industries were not advocating that the Transport Commission or London Transport should in present circumstances raise their prices?—I would say that they were hoping that these profits could be obtained by increased efficiency rather than by increasing fares.

1784. Then in Paragraph 57 they say: "What is of importance is that the capital requirements of the nationalised industries, by whatever method they are financed, should be met out of the country's genuine savings"—Yes, as a consequence; the next sentence of that paragraph points to the moral.

1785. And in the paragraph you quoted, Paragraph 49, they were really arguing that if the nationalised industries sell below cost, it is the general body of the taxpayers, not the users of the product, who pay?—Yes, and they said that was a bad thing.

1786. But it is right to say, is it not, that through the borrowing powers and the Special Account of the British Transport Commission the taxpayers are prepared to pay, and we must recognise that they do pay?—Not for London Transport.

1787. Then you went into rather more detail in relation to the practice in the electricity industry?—Yes.

1788. I think you relied fairly considerably on the arguments which the Herbert Committee, as it is called, have put forward?—Yes.

1789. That is in the report of the Committee of Inquiry into the electricity industry, Command 9672?—Yes.

1790. I think you will agree that the relevant chapter is Chapter 15?—Yes.

1791. Would you agree that first of all in Paragraph 331 the Herbert Committee made it clear that there is no statutory requirement that depreciation should be charged on a replacement basis as distinct from an historical basis?—I accept it as a fact; I do not know that they established the fact.

1792. It is said in Paragraph 331 in the last two sentences: "It also seems to us that this cost should reflect current price levels rather than those ruling at the time when the plant was originally installed. The requirements of Section 36 (1) of the Electricity Act, 1947, that combined revenue should be less than sufficient to meet combined outgoings chargeable to revenue account taking one year with another, do not conflict, in our view, with this approach." Accepting their general conclusion for the moment, would you agree that that chapter is largely concerned with considering a basis on which to determine profit, or surplus?—Yes.

1793. The Herbert Committee were, in fact, considering an industry which had an existing profit?—Yes.

1794. And they were suggesting, were they not, that it might well be misleading to suggest that an industry made a profit of £182m. in 1954-55 when in fact it barely covered necessary charges?—Yes, I think I recollect that.

1795. "We see no practical or theoretical reason why the clearer course of making the whole charge before arriving at 'surplus' should not be taken, and we recommend that it should be taken"—that part of the matter is an accounting problem, is it not?—Yes; they discuss the accounting problem as well as the price problem.

1796. And in considering the price problem they make it clear in Paragraph 344, where they say: "The demand for electric power is strong and rising and there is no rivalry over the same territory between competing undertakings"?—Yes.

1797. And they go on to say: "It would be quite possible to raise prices to an extent that would enable a good proportion of the capital needed for expansion to be internally generated. These prices would not, however, have been fixed in open competition and the surplus accruing would not have been won as the price of efficient rivalry. Further, the policies adopted by the management of the electricity supply industry are not subject

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to the ultimate sanction which can be exercised by shareholders of a private undertaking."

Then in Paragraph 45: "In such circumstances, to use prices charged to the consumers as a device for raising capital for expansion is to impose compulsory saving on electricity users; to make them pay, so to speak, a tax in proportion to their electricity consumption so that the community may build up the electricity industry for the benefit of future consumers. To make present consumers subsidise in this way the capital requirements of future consumers would in our judgment be quite inequitable"—They were talking there about going too far in this matter, of course, and I quite agree that there ought to be some sensible limitations in the sense that any industry that has a monopoly should make profits and finance its own expenses.

1798. That argument of the Committee applies with particular force to the London Transport Executive?—Yes. You no doubt know, Mr. Rippon, that the views and policy of the Herbert Committee were endorsed by the Government the other day in the House.

1799. I am much obliged for that information, but I do not think it is relevant to our Inquiry. Would you not agree that—presumably this part has also been endorsed—rising prices are the last expedient to be adopted?—Could you just point out the words?

1800. It is in Paragraph 346; perhaps I have put it too baldly. That paragraph says: "We have drawn attention to what we think should be provided out of revenue, not with the intention of suggesting that prices should be raised so as to achieve the necessary margin between revenue and expenditure, but in order to emphasise the necessity of getting costs down to a point at which that margin would exist at the present or even a lower price level. We have shown that the industry is at present barely meeting proper charges on income. It has contributed nothing to the contingency reserve which common prudence would require to be built up. We are not dealing with an industry so prosperous and supplying electricity so cheaply that it can afford to be careless in the matter of costs. We state these facts for the purpose of bringing home to the industry and the public the narrowness of the margin upon which the industry is working. As we shall show, there is ample scope for an attack upon costs in the scale of capital expenditure, in the utilisation of capital, in the use of manpower and in other directions. In our opinion the industry is languid in its approach to these problems and we should expect to see a far more vigorous approach before the expedient of rising prices is contemplated". Of course, those observations about the industry being languid in its approach would not apply to the British Transport Commission; we accept that you are making an attack upon costs and that you are trying to reduce the deficit by a programme of modernisation?—Yes.

1801. Would you not agree that, in keeping with the Herbert Committee Report, looking at it as a whole, in the transport industry, as in the electricity industry?—Are you talking about British Railways?

1802. Yes—and London Transport as well?—Which do you prefer, because I disagree with you as regards London Transport and I broadly agree with you about British Railways?

1803. You think you have reached the limit in London Transport by way of reduction in costs?—There are always savings to be made, I hope, but the only substantial savings that can be made quickly is by reduction of services and I doubt very much whether it is sensible at this time to reduce services further. Are you advocating that?

1804. No; I am saying that if you put up the fares, you start people?—The relation between demand and supply must always be a fluctuating matter.

1805. Have you heard the whisper that London Transport tubes might be made fully automatic if the public would like it?—Not a very loud whisper!

1806. But there are possibilities, even in London Transport, for an increase in efficiency through modernisation?—I think the matter was very fairly summarised in one of the documents you put to Sir Reginald yesterday; it is the White Paper in which we said that really the opportunities in London Transport for savings through modernisation are extremely limited.

1807. And I think you will agree that it is difficult to push the conclusion in any of these documents that you have quoted too far; you have to consider each nationalised industry as a special case?—Not where there are general principles. There are general principles that can apply to all the nationalised boards, and really one must seek in applying them to see whether there are any particular circumstances which make the general principles invalid.

1808. So you agree with the report of the Herbert Committee, or with the report of the Federation of British Industries, that price is the last thing you should raise if there is any alternative?—I do not think that applies to London Transport, or indeed to transport generally; you can always make savings by reducing the efficiency of your service.

1809. It is only from the general discussion in the Herbert Committee about self-financing; they do have some specific observations to make on the subject of depreciation?—Yes.

1810. And they point out in Paragraph 333 that the electricity industry "has each year since vesting day set aside, before calculating 'surplus', depreciation on a historical cost basis"?—Yes.

1811. And they say that that is one of the reasons why they have shown a surplus; in determining whether the amount included in the account was adequate for depreciation, the Herbert Committee in Paragraph 334 did consider several special factors?—Yes.

1812. They are factors (a) to (e); and I think they said at Paragraph 335: "... that when allowance is made for these factors current provisions are not substantially different from what they would be if our concept were accepted"?—That is including the transfer of supplementary depreciation.

1813. Including the factors (a) to (e)?—Yes, but they are not saying that the depreciation in historical cost set aside by the industry—let me just study it, if I may. If you look at the second sentence in Paragraph 335, they are talking about the provision for depreciation plus the transfer to supplementary depreciation reserve—something they may not have called "provision for replacement" but it was clearly of that character.

1814. That depends very much, does it not, on the way in which you build up your accounts?—Well, I am not really expert to take you through how the Electricity Industry builds up its accounts.

1815. I quite appreciate that. I think it is sufficient for me to put to you that in considering this question of whether you should depreciate on an historical cost basis or on a replacement cost basis there may be special factors in the accounts of any industry to be considered—

(President): Not in the accounts; in the facts.

1816. (Mr. Rippon) (To the Witness). In the practice as reflected in the accounts?—I think the President has given you the correct answer, Mr. Rippon. It is the facts of the industry that matter, not the accounting or the practice.

1817. One of the factors which the Herbert Committee took into account in Paragraph 334 is this: "In the calculation of depreciation no allowance is made for the residual value of the assets"?—Yes.

1818. I believe you do in your accounts in fact make that allowance?—Yes, I think we do in a sense.

1819. So there is a factor which is different as between the two industries—a factor which is reflected in the accounts?—It has no reference to the general principle.

1820. So that the Herbert Committee could not have directed their attention to it at all?—No; they were going through the arithmetic to see whether adequate provision had been made for replacement in one way or another.

1821. Perhaps you can help me a little about the practice of the British Transport Commission in this respect. I believe—I am not quite sure of the precise facts—that in 1954 you changed your basis of provision for maintenance?—Yes.

1822. So that you now do charge against revenue account the actual sum used for maintenance and replacement each year?—We always charge against revenue

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[Continued]

account in the first instance the actual amount charged for maintenance of the assets which is not charged in the depreciation scheme. But there was a change in 1954 as to how we equalised that expenditure; the transfers to and from reserve for equalisation purposes—the procedure was changed in 1954.

1823. I think that has to some extent altered the shape of your accounts and the figures you present?—It is not likely—

1824. It did in 1954; I think you actually spent less on maintenance, but the provision made out of revenue was £24m. greater?—Are you talking about London Transport?

1825. I think that is over the Transport Commission's undertaking as a whole. I was going to ask you if the same principle was applied to London Transport or if you had always done it on the same basis?—Generally speaking the principles were the same for each of the activities.

1826. And when you changed for British Railways in 1953 or 1954, I think it was, you changed the practice also for London Transport?—Yes.

1827. You would not suggest that it was not right for it to be done; it has meant, has it not, an improvement in the position since that time as far as making a proper provision for maintenance is concerned?—The previous basis was based on the war-time standard of allowance formula, and we brought it up to date. I am not, for the moment, able to remember what effect it had on London Transport's finances.

1828. Do you know whether the Electricity Board adopts the same procedure?—Equalisation? No, I think they depreciate all their assets, including the ones we do not depreciate, but for which we provide this equalisation procedure instead.

1829. You said that the Government had just accepted the recommendations of the Herbert Report. Do you mean they accepted all of them?—They endorsed the general conclusions about self-financing in the Report in the Debate on the Electricity Supply Bill on the 20th January last.

1830. So is the position now that the accounts of the Electricity Board show depreciation on a replacement basis?—I do not recollect. Was that a recommendation of the Herbert Committee? The Herbert Committee's main recommendation was that the profit should be such as to enable provision to be made. The bookkeeping is not the most important matter; the important matter is whether, one way or another, sufficient profits are made and set aside to enable self-financing to be undertaken.

1831. As distinct from the accounting argument they were putting forward, in calculating the surplus I think the Herbert Committee said, taking all the factors into account that they refer to in Paragraph 334 and the factors to which you have referred in Paragraph 335, in essence there was not very much difference between the two?—Between the two what?

1832. Between the two methods, the historical costs basis or the replacement costs basis?—I do not think that is a reasonable interpretation at all.

1833. Perhaps that is a matter of argument, because the Report is here. For example, the Herbert Committee, in Paragraph 334, says that one of the factors drawn to their attention is: "(a) The depreciation rates used by the industry are fixed on a basis which gives the assets a shorter book life than experience shows them to possess"?—Yes.

1834. Would that apply also to London Transport?—Some of the assets. Of course, that particular factor equalises itself in the long run. More important, I think, is (b). As I was saying, they provide for depreciation as well as maintaining out of revenue the network.

1835. London Transport do that?—No, they do not do (b). They maintain out of revenue, but they do not provide depreciation for what one might call the network, that is the tracks, stations and signalling.

1836. They also refer in (c) to the fact that "The plant of the industry is in fact, being greatly expanded; from the period when construction is started to when the plant goes into operation, large amounts of capital are locked up, the interest cost of which, instead of being capitalised,

is charged to Revenue Account"?—That has not much relevance to London Transport.

1837. To the British Transport Commission generally, but not to London Transport?—In the case of British Railways generally we are charging interest to capital.

1838. I think we did hear in the case of London Transport that there are very considerable schemes of capital development still in hand which, although they are partly replacement also, contain an element of improvement?—Yes.

1839. You would agree that is a factor to be taken into account?—I say it is fairly trifling.

1840. Hardly worth doing if there is going to be no improvement?—What is hardly worth doing?

1841. You said it is very trifling?—I said the amount of interest involved in the capital locked up is not very large.

1842. There is another matter which I would like you to explain to me, and that is the position as far as capital redemption provisions are concerned, which is page 11, Volume 2, of the 1957 Report, Paragraph 12: "Section 93 of the Transport Act, 1947, provides that amongst the charges to be made to revenue there shall be a proper provision for the redemption of capital and the detailed requirements are set out in the British Transport Stock Regulations, the British Stock (Amendment) Regulations, 1949 and 1955. The period for which provision should be made for redemption is 90 years", and so on. I think it is done at a rate of 3 per cent., and the provision in 1957 was £3,268,000?—Yes.

1843. Is a similar statutory provision made in respect of the electricity industry?—I expect so.

1844. You do not know?—I should think it is probable; I accept it from you.

1845. I do not think it is the position. I will not go now into how we ought to interpret the Statute, but, as you understand the position, the statutory requirement is that earnings must be sufficient, not only to maintain your capital intact, but also to repay the borrowed capital over the life of the assets?—No; over 90 years is a good bit longer than the life of any assets we have.

1846. That is a concession, as it were?—No, the repayment over 90 years makes the thing *de minimis*. £3m. is, perhaps, a little more than *de minimis*, but it is very small in the context of the total value of the assets.

1847. You do put aside this sum, in accordance with the Regulations that have been made, at the rate of interest which has been fixed?—Yes.

1848. What I was going to suggest—and this may not be within your knowledge—is that the Electricity Board, and, I believe, also the Gas Board, "subsume" this provision under the general depreciation head, regarding them as alternatives?—Yes, I have some recollection of this. I believe they discussed the reasons for it in some of their earlier Reports.

1849. Would you agree that, logically, they are alternatives?—I am sorry, but what are alternatives?

1850. Would you agree that, logically, they are alternatives?—What are alternatives?

(President): Mr. Winchester wants to know what "they" mean in the question; what are the "theys" which are alternatives.

(Mr. Rippon): I appreciate that, Sir.

(President): But Mr. Winchester does not at the moment.

1851. (Mr. Rippon): You can make the provision either under capital redemption or under a general depreciation heading, but you should not necessarily be required to do both?—I do not want to start to appear to be criticising or judging what the electricity people do. I would think that the logical and obvious way to do it is the way we do it, and if you do it the other way you must have some special reason or justification for doing it in that way. I seem to remember that they were going to some lengths to establish that justification.

1852. To the extent of £3m. a year in the Capital Redemption Account you may be making a greater provision than the electricity or gas undertakings?—Not unless you can establish that our basis of depreciation is so generous as to be held to embrace that figure.

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[Continued]

1853. If you did that, you would have to take into account the fact that you also have a Capital Redemption Account?—I am sorry, I do not follow you.

1854. I am accepting what you say. It will probably look all right on the transcript, I hope. Then your notes and accounts also show that in 1957 you made special transfer to the Maintenance Equalisation Account?—Yes.

1855. That is in Paragraphs 21 and 23 on page 13. That shows, first of all, that in 1957 there was the transfer of £12.3m. to the Maintenance Equalisation Account, which represented a retrospective adjustment of the Commission's opening Balance Sheet. That is because you had made, I gather, too great a provision for taxation?—Yes.

1856. Paragraph 23 also shows, does it not, under the heading "Contingencies" that the balance of £12m. of this account, which was regarded by the Commission as available only for purposes of an exceptional nature, has been transferred to the Maintenance Equalisation Account as there will be exceptional charges to this account resulting from the replacement, or displacement, of certain assets. I think, as a result of those two additions, the Replacement Reserve at the end of 1957 stood at about £24m. I think that is shown in Volume 2, Table 54, at page 317?—Yes.

1857. Could you not have treated that £24m. as a reserve?—Maintenance equalisation is a reserve, is it not?

1858. Putting it another way, although you have been calculating, for the purpose of your Maintenance Equalisation Account, on an historic rather than a replacement basis, the factor of transferring £24m. in one year ought to be taken into account in determining whether or not you are making sufficient provision?—No. These transfers relate, certainly the first one, and I think, the second, to happenings before the Commission was formed.

1859. Those are the sums of money frozen for some years, in effect, in Special Accounts?—Yes.

1860. Which have now been applied to the purposes of the Maintenance Equalisation Account?—Yes. It would be quite improper, in my view, to relieve revenue of its proper charges in the year in which these transfers were made.

1861. Would you, at any rate, consider that these are the sort of factors which a Herbert Committee, investigating the British Transport Commission and the London Transport Executive, might have taken into account when they turned their theory into practice?—No.

1862. Would you think it will be a good thing for something like the Herbert Committee to investigate the British Transport Commission?—I beg your pardon?

1863. Would you like a Committee such as the Herbert Committee to go into these matters in detail and present us with a Report?

(President): The Chambers Committee did go into the London Transport organisation, did they not, including this topic?

1864. (Mr. Rippon): I did not want to refer to that, because we have already had evidence about that in the past. It is not in Mr. Winchester's evidence-in-chief in this Inquiry, so I thought I would not refer to that in cross-examination, although I could put it all to him if it was felt to be necessary or desirable. (To the Witness): What I would put to you generally is this: Do you not think it really is a factor to be taken into account that the British Transport Commission generally, in the hands of its bankers, has been specially treated and considered quite separately and distinct from the other Nationalised industries?—I do not think that that has any relevance to London Transport.

1865. If I can refer briefly to another set of Reports to which you referred, that is the observations of the Iron and Steel Board, first of all, in their Annual Report of 1953-54 at page 19. I think you relied on paragraph 112: "An allowance based on the writing off over that life of the original cost of the assets in question would not be sufficient to meet the cost of their renewal in view of the high level of capital costs today compared with that over the years when the existing assets were installed. Consequently the Board took current replacement costs into account together with other factors such as the average expired life of the assets, the accumulative effect

of the allowance and the fact that replacement on the same site may result in certain economies. Separate calculations were made for each type of product." You did not, however, refer to paragraph 110, in the second sentence of which the Report states: "Provision for depreciation and obsolescence of fixed assets is of necessity an arbitrary figure and this was assessed by the Board not by reference to the provisions actually made by producers in this respect but on other criteria." Would you agree with that, that it is necessarily an arbitrary figure and, as shown in paragraph 112, there are a number of other factors always to be taken into account?—I agree it is an arbitrary figure. I think in the case of London Transport it is a sensible and a reasonable figure. I think that the other factors mentioned at the end of paragraph 112 have very little relevance to the London Transport situation.

1866. It would be relevant, would it not, to have regard to the average life of the asset, whether you fix that at a rather high or a rather low figure?—But I commented on that, that whether you take the long or the short life, it tends to even out in the end, because once the asset has reached the end of its assumed life for depreciation purposes you cease to provide for depreciation of it.

1867. Would you agree that here, again, you are dealing with an industry which was making profits?—I agree.

1868. And was this, really, all an exercise for the purpose of determining standard profit margins in a competitive industry?—The ultimate object of the exercise was to determine what prices they should be allowed to charge.

1869. One might describe it as a price-fixing agreement?—Yes.

1870. Those that were most efficient would get the greatest benefit?—Yes—not "price fixing", perhaps. It would be price fixing by an independent body.

(President): We have to be careful now, do we not?

1871. (Mr. Rippon): Then you referred also to the second Special Report in 1957, Paragraph 200. I think you quoted the last sentence in which it is said: "It is relevant that the Board's price policy pays regard to the capital as well as the operating costs at new plant and it should be possible for the companies to find a substantial part of the necessary finance from their own resources." Is it not a case of saying here: Having regard to all the circumstances in the steel industry, it should be possible because it is, as they say in the previous sentence, expenditure related to a steadily expanding industry with, and I think you will agree, at that time a rising demand?—Where industry is steadily expanding it is easier, I agree, to charge prices to make large profits.

1872. And at the time with which that Report is dealing, the demand for steel was expanding?—Yes.

1873. That industry, too, may have fluctuations in demand, as we know, from time to time. Turning from what you did say in your evidence about your researches into what you did not say, and the Report to which you did not refer, can you tell us why you said nothing about the practices in the gas industry or the National Coal Board? Perhaps I can help you: Is it because their practice does not support your contention?—I did not say any practices supported the contention of the Nationalised Boards, except electricity. I pointed to what I could find by way of statements of policy or intention; but the Coal Board policy I am very happy to explore. The Gas Board policies I just do not know about.

1874. I am afraid I cannot help you either if you do not know the policy of the Gas Board. I thought it might have been included in your researches?—Certainly the policy of the Coal Board is—

1875. You did not refer, of course, to the Ridley Report?

(Mr. Fay): Let Mr. Winchester finish his answer.

(The Witness): The policy of the Coal Board is certainly on my side, as it were. They take the same view as I do.

1876. (Mr. Rippon): I want to refer to the policy of the Coal Board, then. You do not refer to the Ridley Report, as it is commonly known, officially entitled the "Report of the Committee on National Policy for the use of Fuel and Power Resources", reported in 1952 Command 8647?—No, I have not, as far as I can remember, looked at that.

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[Continued]

1877. Would you agree that, in very general terms, the financial position of the Coal Board in relation to deficits is much more analogous to the British Transport Commission than either the Electricity or the Gas Boards?—I am sorry, I just do not know enough about it. Certainly the Coal Board has had fluctuating fortunes and deficits and surpluses. I do not know the facts of the Gas Boards.

1878. There is a very large capital expenditure programme from which immediate results would not be expected, to put it in the most favourable way I can?—Yes.

1879. I think the Ridley Committee expressed some views on present policy in Chapter IV, page 14?—This is seven years ago, of course.

1880. Six years ago. They say; in Paragraph 56, discussing general principles of price policy: "A useful commodity has a price because it is scarce, whatever the cost of production. A commodity would have a price even if it had no cost of production, so long as it was wanted but limited in supply; on the other hand, no commodity could be sold at any price if no one wanted it, however much it might cost to produce." Applying that to the position in transport, if you have an empty seat on the train, although it would cost nothing to carry an extra passenger you, nevertheless, charge him a fare?—Indeed.

1881. That is why an empty seat is so wasteful and costly?—Indeed.

1882. Equally, I think you would agree that, in respect of transport, whatever the price you put on the ticket, if people are not prepared to pay it does not matter what it costs to produce?—I agree, yes. There is nothing I need quarrel with in those sentences.

1883. Would you agree that you are reaching that position in London, when there has been a fall of 850m. passenger journeys in under a decade?—Reaching what position?

1884. That whatever price you put on your ticket there are people who are not going to pay it, however much the service may cost you to produce?—Certainly if you reduce prices you will sell more, and if you raise your prices you will sell less.

1885. What we would agree with is the opening sentence of Paragraph 57: "The effect of pricing is to restrict supplies of a commodity to those buyers who are most willing to pay for it."—Unexceptional.

1886. At the bottom of Paragraph 59 the Committee say: "... from the community's standpoint, price should not be less than cost. From the standpoint of the National Coal Board, under statutory obligation to pay their way, the case is equally strong." There, again, I think one would be in agreement?—Yes.

1887. Having stated that, they look at the facts and the position of the coal industry, and I think they then became divided as to what basis of price they should adopt, in that case called average cost pricing or marginal cost pricing; but as far as four out of the seven members of the Committee were concerned, they expressed their views, first of all, in Paragraph 66, two-thirds of the way down: "... this half of the Committee do not consider this to be acceptable or necessary"—that is to say, a marginal cost pricing increase of £1 a ton—"in their opinion the overriding principle is that coal is so important to the economy that it should be sold at the lowest price which is consistent with the National Coal Board's covering its costs. Indeed they assume that one advantage of the nationalisation of coal is to realise this principle." Would you agree that that applies also to transport?—Yes. It depends, of course, what you mean by "costs".

1888. It depends on your definition of "costs". Is the position, so far as the Coal Board is concerned, that they depreciate on an historical-cost basis and make no provision for reserve?—Yes.

1889. They took an opposite view to Sir Oliver Franks and the Federation of British Industries about price restraint?—Yes. A lot of water has flowed under the bridge since 1952.

1890. In Paragraph 72: "Those opposed to increasing the price of coal believe that this increase in the cost of living would provoke an inflationary series of wage demands out of all relation to the actual increase in

the cost of living due to the higher price of coal"?—You will find it difficult to get up-to-date quotations of that character.

1891. That is what the Ridley Committee said?—The Select Committee on Nationalised Industries last year took a rather different view of the situation.

1892. I think what you are saying, are you not, is that over a period of time there has been a change of view on this matter and the more up-to-date theory is contrary to the principles set out in the Ridley Report?—The emphasis has changed. The paramount need of price restraint has, perhaps, receded and some of the problems created by giving paramount importance to price restraint have emerged.

1893. Let us come to half-way between 1952 and 1956 and Sir Oliver Franks and look at some observations which were made at a Conference organised by the Institute of Municipal Treasurers and Accountants on the subject of the place of finance in public administration, which took place at Balliol College, Oxford, between the 19th and the 21st March, 1954. I think that was a symposium of the views of the financial experts of various nationalised industries dealing with this question of how you ought to calculate provision for depreciation?—That, I think, was one of the matters they talked about.

(President): Mr. Rippon, we asked to be supplied with a list of the published documents which Counsel proposed to use in the course of presenting their cases. We have received very few lists, and I do not remember any list which had the Municipal Treasurers' and Accountants' symposium amongst it, but I may have missed it.

(Mr. Rippon): It was No. 2 on the list of documents which the Objectors supplied last Monday. I regret to say we did not supply the Transport Commission with it until yesterday.

(The Witness): Is it Sir Reginald Wilson's Paper you are referring to?

(Mr. Rippon): I was going to refer to Sir Reginald Wilson, first of all, but there is another Paper by Mr. John Latham of the Coal Board.

(President): I had been handed the list which reached the office, and there is a reference to an Institute of Municipal Treasurers and Accountants, 1924. Yours is rather later, is it not?

(Mr. Rippon): It should be 1954, Sir. (To the Witness): I have only two or three extracts to read, but, no doubt, it has probably been difficult to obtain copies, which are probably only available to Local Authority archives. Sir Reginald Wilson on page 43 was dealing with this question of self-financing, and at the top of the page he said: "If one views the enterprise as a gallant risk-taker who is entitled to shield himself from every possible effect of inflation, then he should be allowed to draw his account in such a way that he makes an annual charge for replacement of the assets at current prices (i.e. any enhanced cost of replacement, and the extra capital involved, are to be provided by the customer); and in addition he must be allowed to earn the appropriate yield on the capital in terms of new money. If, on the other hand, one takes the view that the enterprise is not entitled to profit or interest on capital he has not provided, then one might allow the charge for replacement on current values but restrict the profit to the old figure in terms of money (i.e. reduce it in terms of real values). Alternatively, one might refuse to allow a charge for current replacement cost and substitute a charge for depreciation on historical cost, in which case the enterprise must in due course raise his own increase in capital, when he will presumably be allowed interest or profit in relation to the increased capital. It is also possible to argue, where the business is financed entirely by loan capital and there is no equity in private hands, that the depreciation charge should be related to historical cost and the interest charge related to the borrowings outstanding (e.g. also to historical cost, as it were)."

(Mr. Fay): Might I ask Mr. Winchester if he has found the page?

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[Continued]

(The Witness): No, mine is not numbered, but I followed it fairly well.

(Mr. Fay): Could we be told what part of Sir Reginald Wilson's Paper this is? I have a print, as I think Mr. Winchester has, which is in a different form.

(Mr. Rippon): It is Part IV, "Production Matters," and under the heading: "Form and Basis of Account."

(Mr. Fay): It is page 16 of my copy.

(Mr. Rippon): You would agree, would you not, Mr. Winchester, that that is a perfectly respectable argument to advance?

(President): If it is going to be advanced here you must not say "No", Mr. Winchester. They are all respectable.

1894. (Mr. Rippon): It is Sir Reginald's argument up to that point?—He is saying that these are various possible arguments that can be advanced, but he has not so far said whether one is right and the other wrong.

1895. Is not the position this, that there is a genuine conflict of opinion about the correct approach to this problem, and it can be expressed in the way Sir Reginald put it. I am not saying it is his argument?—I would say opinions are hardening all the time, and when we get up to date, perhaps, we will get the right answer.

1896. He went on to say: "There can be little doubt that this last basis is the cheapest to the public who are paying fares at the moment, but whether it is prudent in the national interest, or fair in the interests of passengers to come, is altogether another question." I am not disputing that it is a matter of argument; all I am asking you to say is that there are arguments on the other side to those you have advanced in your evidence?—Oh yes, indeed.

1897. I think you said that the views of the Coal Board are very much in line with your own views?—Yes.

1898. So, possibly, they have changed since the time of this Conference. Another Paper given at this Conference was given by Mr. John Latham, C.B.E., then the Director-General of Finance of the National Coal Board. I gather you have not got a copy of that?—No, I have not.

(Mr. Rippon): I will make my copy available if it is of any use.

(Mr. Fay): It is very difficult for the Witness to give an answer which is of any utility if he has not got the words in front of him, unless it is one short sentence.

1899. (Mr. Rippon): I will read it to you slowly, and then we can look at it piecemeal so far as that may be necessary. What I want to do is, as it were, to write it into the Record, and then I will make the copy available, because it may be thought I have made my own selected extracts and you have had no opportunity to consider other factors that Mr. Latham brought into account. He said on the subject of financing capital development: "The issue of most interest in connection with the Board's financing is the extent to which capital developments should be financed by borrowings or by profits respectively. If the Board just break even on their revenue accounts and their depreciation provisions are sufficient to provide for capital replacement (I will deal later with the question of differences between original and replacement costs), then under present arrangements they borrow the whole of the sums required for capital developments." That is the position, is it not?—That statement is correct.

1900. Then he went on to say: "This practice is not in line with that of most industrial companies, which earn profits of which substantial proportions are retained in the business to finance capital developments." There is no doubt about that?—No.

1901. Then he goes on: "From the narrow point of view of the coal industry, there is much to be said for the present arrangements. A major reconstruction of the industry has to be carried out and the benefits of it will not be obtained for some time; indeed, current costs are already bearing fairly substantial capital charges on expenditure not yet fully productive. It may well be thought, therefore, that the coal consumers of the future (who will, in theory, enjoy the benefits) and not those of the present should meet the reconstruction costs. Moreover, if capital developments were to be financed

from revenue, profits would need to provide about double the capital needed because of the effect of taxation—this, of course, is a common problem." Would you agree that the British Transport Commission, and, to some extent, London Transport also, are in the same position as the Coal Board in so far as a major reconstruction of the industry has to be carried out and the benefit of it will not be obtained for some time?—No, not London Transport.

1902. Not at all?—You have not mentioned what Mr. Latham said about replacement. I am not clear whether he was advocating a provision for replacement or not.

(Mr. Fay): That is a point which I was trying to follow. I thought Mr. Rippon read a statement, to which, I understand, he gives approval, that it is a proper state of affairs if there is a sufficient depreciation provision to provide for replacement.

(Mr. Rippon): Yes, and then he went on to say he would deal with that later. He said he would deal later with the question of the difference between original and replacement costs, and he did go on to deal with that under the heading of "Depreciation".

(Mr. Fay): Let us be clear, since we have not got it in front of us and since this is supposed to be a process of cross-examination of the Witness, that what is being put is that there are objections in the case of the Coal Board to financing capital development out of revenue, not replacement.

1903. (Mr. Rippon): That is right, in the passage to which I have just referred; I am much obliged to my friend Mr. Fay. Then he went on to say that he would like to refer to depreciation provisions specifically, which, perhaps, constitute the only controversial point in the computation of "outgoings". . . . Assuming that reasonable estimates have been made of the expected working life of capital equipment and that depreciation provisions have been reasonably calculated to write off the cost of the equipment over its useful life, the question for consideration is whether account should be taken of differences which may exist between original cost and either current or replacement cost. This is a matter of acute controversy." Would you agree with that as a general statement?—I should think the controversy is now less acute, that there were fewer on your side and more on mine.

1904. You cannot judge argument just by numbers. Then he went on to say that the National Coal Board "has so far taken the view that depreciation charges in accounts should be related to original costs, but has reserved the possibility of allocations out of profits, when available, to meet increased replacement costs." That, apparently, was the practice of the Coal Board then. Are you suggesting it is different now?—Can I bring you up to date and read the Board's general policy as given in the Memorandum which they submitted to the Select Committee on Nationalised Industries, Command 304, dated the 29th October, 1957, page 155? This is a Memorandum submitted by the National Coal Board on coal prices, and paragraph 3 reads: "The Board's general price policy. Having regard to the statutory position, and subject to H.M. Government's judgment of the public interest from time to time, it is the Board's policy to charge prices which will (a) cover costs; (b) provide for the replacement of fixed assets at current prices; (c) make such further contribution towards the financing of capital investment as may seem desirable according to circumstances." That is a statement of policy.

1905. I think, like Sir Reginald Wilson, they sometimes prefer a policy to a programme. There is no relation, is there, between that policy and the practice of the National Coal Board; that is just a general statement of pious hope to be realised at some future and more expeditious date?—It is a statement of policy which is, in general, blessed by the Committee to whom it was submitted.

1906. Let us look at the Report of the Select Committee on Nationalised Industries (Reports and Accounts) together with the proceedings of the Committee, Minutes of Evidence and Appendices. As you quite fairly point out, this earlier statement of policy still has to be taken into account?—I did not point it out.

1907. On page xv—which is the Report of the Select Committee—they report in paragraph 68: "To carry out their statutory duty, the Board aim to sell coal at prices

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[Continued]

which will—(a) cover costs; (b) provide for the replacement of fixed assets at current prices; and (c) make such further contribution towards the financing of capital investment as may seem desirable.” Then in paragraph 73, under the heading of “Depreciation”, the Select Committee report: “The great expenditure on rebuilding the industry since the war has naturally been reflected in higher charges for interest and depreciation. The Board depreciate their man-made assets on an historical basis (Q. 330; Appendix 11); this is a matter for them to decide. While the Board and the Ministry agree that more self-financing by the Board would be desirable, there is no insistence on depreciation on a replacement basis.” If one looks at Q. 330—?—I am not disputing that they do depreciate on an historical basis.

1908. I do not object to this general statement of policy on behalf of the British Transport Commission and the London Transport Executive, provided you relate the policy to the existing circumstances and only do what is possible and reasonable at the present time?—We are at one.

1909. That so far as the British Transport Commission and London Transport are concerned, on the question of whether at this particular point of time you so put up prices as to increase the amount of self-financing, part of the general question is how much you should at the moment put prices up in view of all the circumstances and the state of the economy? Would you agree that

that, in a general sense, is the particular question to which this Inquiry must address itself?—I am not sure that either the Commission or the Tribunal should pay too particular regard to the state of the economy; but, clearly, we cannot ignore it, and, clearly, when you put up prices you have regard to something more than merely the need for replacement and self-financing.

1910. What you should have regard to is not so much the state of the economy as all the circumstances affecting the particular undertaking, or part of the undertaking?—Indeed, I accept that entirely.

1911. Would you agree that, whatever general aims they may have in mind, in point of fact the National Coal Board is depreciating on the basis of historic cost?—I was at some pains to emphasise that early in my evidence.

1912. What I am going to suggest to you finally is this, that having regard to the state of finance of the British Transport Commission—which, I suggest, is more comparable to that of the National Coal Board than to any other nationalised industry—and having regard to the fact that special provision has been made to enable the Transport Commission, as a whole, to break even in 1961-62, the most prudent course would be to follow the practice of the National Coal Board and not that of any other nationalised industry?—May I restate that the special provisions to deal with the railway situation had nothing to do with London Transport?

Cross-examined by Mr. MILNER HOLLAND.

1913. Mr. Winchester, I do not think I shall be keeping you very long, but I would like to ask you a few questions directed, I hope, to matters of fact in relation to your evidence about the contribution to Central Charges. Not having had the advantage of being here yesterday, I am not sure whether any of my colleagues have put any questions on this.

(President): No.

1914. (Mr. Milner Holland): I think you told the Tribunal, or you spoke to the Tribunal on the footing, that about 90 per cent. of Central Charges related to interest and service of capital?—Yes.

1915. I dare say it does not matter very much, but is it not really nearer 97 per cent.?—I do not think so.

1916. May I just show you why I am making that suggestion. We really have to look at Table IV, 5, do we not, for this?—Yes.

1917. That is at page 22. Taking the figures in the order in which they come, and setting aside for the moment Central Administration Expenses, the next item is plainly all interest, £61,888,000?—Yes.

1918. The next item is capital redemption, and that is service of capital?—It is not interest.

1919. The question I put to you was whether 90 per cent. of the Central Charges was not interest or service of capital?

1920. (President): I did not hear “service of capital”, and I do not think Mr. Winchester did either?—No, Sir.

1921. (Mr. Milner Holland): I am very sorry. Let us get our definitions right. Capital redemption, of course, is replacement of capital which has to be made?—Yes.

1922. And that is service of capital?—Yes.

1923. Then your next special item, which we find in Form 9, is amortisation of discount?—Yes.

1924. That figure is really providing for the fact that you raised money and did not get the full amount of parity?—Yes.

1925. That, I think, I will put to you as a form of payment of interest. If you put £100 and you only get £99 because you have to issue at a discount, you are really, in effect, paying a higher rate of interest?—It could legitimately be so described, yes.

1926. I did not intend to suggest directly that capital redemption was a form of interest, but it is a form of service of capital?—Yes.

1927. If you take those three items together for the moment, we have £61,888m., £3,269m. and amortisation of discount £564,000?—Yes.

1928. I do not think we need bother about exact figures, but, perhaps, you will take it from me that that gives you something over £65½m.?—Yes.

1929. Then you have some credit figures to bring into account, if we are talking about interest received, which is the figure next on the table of £1,293m., to the nearest thousand?—Yes.

1930. Broadly, that is going to give us something like £64½m. or £64-4m.?—Yes.

1931. The other items in the account are the Central Administration Expenses, which are £2,019,000, and the remainder of the items, which make up the total of special items, we find in Table IV-9?—Yes.

1932. They are quite small: £22,000-odd for compensation to staff, and profits on sale of investments, £77,000. Those three items, of course, are nothing to do with interest or service of capital?—If you wish to be precise about it, you could regard the profit on sale of investments as interest certainly as much as the discount on issued stock; but I am not worrying about the odd £70,000.

1933. I do not think it will make much difference. As a matter of mathematics, the three major items which I first read to you, interest on stock, capital redemption and amortisation of discounts, giving credit for interest received and giving a total of £64-4m. or thereabouts, are 97 per cent. of the total of £66-39m.?—Yes. May I just make two observations on that? One is that I was talking about the revenue charge for Central Charges. The only figure you should take from the interest is the £564,000, so your divisor becomes £59-8m. It does not affect the answer substantially.

1934. I should have thought it probably did not, because, in case you thought it probably more accurate to do the exercise without the figures carried in the Special Account, I have brought a complete set of figures for that, and the answer I got was still 97 per cent. Would you like me to run through it?—No, I will accept that it is 97 per cent. May I make this other observation, that for the purpose of the argument with which I was dealing, the higher I could put the interest element the better, so I have not overstated my case.

1935. I do not suppose I will ever accuse you of using figures unfairly, I only want to get the facts. The interest element, or, at any rate, if you like, the interest and the service of capital element, in Central Charges is, in fact, something of the order of 97 per cent.?—Yes.

1936. I am not suggesting for a moment you gave the figure of 90 per cent. for any improper purpose at all, I just want to get it that the element in the Central Charges for interest and service of capital is about 97 per cent.?—Yes.

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[Continued]

1937. Then we need not pursue that further. Without reopening a lot of past history, particularly as I have not had the great privilege of attending every year before the Tribunal, and without necessarily reopening what I think is called the specific approach, one fair test of the proportion which London Transport should bear of Central Charges is the test of what demand does it make on the capital resources of the Commission?—It is one test, certainly, yes.

1938. And, you would accept, would you not, a perfectly proper test?—Well, if you are adopting the specific approach and building up from the past in that way; but it tends to get less valid as time goes on and other circumstances change. London Transport is run as part of the London Area.

1939. Mr. Winchester, let me relieve your mind, or relieve the President's mind, by saying I was not proposing to start another exercise in the specific approach.

(President): I do not know whether it relieves my mind. One goes up and down, and the specific approach has been rather neglected at the last two inquiries. It is an old friend.

1940. (Mr. Milner Holland): I rather felt it might not be a very popular exercise, because I have read the Tribunal's Memorandum and I rather thought their feelings were that the specific approach was, perhaps, not a very useful exercise, at any rate carried out in too much detail. I suppose it is open to me to re-argue the whole of that, but I was not proposing to do so. On the other hand, Sir, although I do not want to waste time, some element of the specific approach, knowing what we are talking about and why we are apportioning, must exist, although the ultimate figure must, of course, be a matter of judgment. Therefore I want to test it, not at immense length, but at some length, with Mr. Winchester. (To the Witness): You did put before the Tribunal four tests, and your first one related to net book values?—Yes.

1941. And you suggested you might test it in three other ways?—Yes.

1942. And, no doubt to your great surprise, the other ways gave you much the same answer. I see you are looking for comfort to a document which gave me a little comfort, what I have called the explanation of Mr. Winchester's four methods. It is right to say, is it not, your first approach was on the net book values, and your other three tests were on gross receipts, working expenses and number of staff?—Yes.

1943. I am not going to trouble with the figures in the second and third method, but I would like to ask you one or two questions about them. First of all, gross receipts: You would agree, would you not, that the gross receipts give no indication at all, or no necessary indication at all, of the capital invested?—That is so, I agree.

1944. And, of course, if you wanted to put your contribution to Central Charges on ability to pay, gross receipts give no useful indication of ability to pay either?—It is not of great assistance, no.

1945. I do not want to elaborate this, but figures for gross receipts might be quite consistent with insolvency?—Yes.

1946. And quite consistent with that part of the undertaking having made no drain, and making no present drain, on the capital resources of the total undertaking?—Not if the undertakings you are looking at are transport undertakings. Every transport undertaking requires a substantial amount of finance. I agree the proportion of finance required to gross receipts varies a good deal from one undertaking to another.

1947. I do not really need more than this, because I believe you are really agreeing with me: Gross receipts would not be a reliable method of determining what ought to be the contribution to the expenses of servicing capital?—I agree, as long as it is not assumed that I am saying that net book values is a reliable method. I think that none of these is a reliable method; they are a variety of tests to assist in final judgment.

1948. I am going to suggest to you that one of them is better than the others in any event, but I am suggesting for the moment that gross receipts is not a useful test to determine the question of the contribution to charges 97 per cent. of which turn upon the service of capital?—

I am perfectly happy to admit that test 1 is the most useful of the tests on this piece of paper.

1949. I am not going to take time, but may we just look for a moment at the other suggested tests. The third one on your list was working expenses. They bear no relation at all to the capital invested, do they?—No.

1950. In fact, they are in the same category, logically and by nature, as gross receipts; they are gross figures which give very little indication one way or the other?—I agree.

1951. Number of staff was your fourth test. I know you are not putting it too high, but, really, it can be of no assistance on this question, can it?—They are all indicative of finance potentiality to a greater or less degree.

1952. Let me put one simple analogy to you, which I have no doubt you will accept: You cannot get any clue to the amount of capital being used by a particular industry from the number of staff employed, can you?—I agree.

1953. The simple example, perhaps, would be the difference between a manually operated industry and an industry which is wholly automatically operated?—Certainly. The field is a little narrow here.

1954. At the moment I am dealing in generalities. Of course, an industry which is highly automatic is likely to have to spend a lot of money on its machinery, but if it is manually operated the capital may be very low but the number of staff very high?—Yes.

1955. Would you accept the view that of your four tests the net-book-value test is probably the most reliable?—The most useful, yes.

1956. We will not quarrel over "useful" and "reliable". You have, in fact, applied the net-book-value test. Just to make sure that I have got it right—and I am sure everybody else in the room understands it—I want to get it from you to make sure I have understood it: You have gone to Table V-4 at page 317—Yes.

1957. And you have taken the columns on the right-hand side for fixed assets, and you have taken figures representing the mean between 1956 and 1957?—Yes.

1958. Your method is this, is it not: The mean total is £1,810m., which is the mean between the figures £1,763.6m. and £1,855m. in the next column?—Yes.

1959. And out of that £1,810m., which represents the mean value of the fixed assets and goodwill of the entire undertaking, you have extracted British Railways, which is the mean of the first three figures?—Yes.

1960. That is £1,384m., leaving you £426m. representing the other activities?—Yes.

1961. Then of the other activities you put London Transport at £147m., which is the mean of the total of the four figures against London Transport; that is right, is it not?—Yes.

1962. You have applied that fraction, £147m. over £426m., if I remember rightly, to £18.8m.?—Yes.

1963. £18.8m. is based on the auditors' apportionment as between British Railways and other activities?—The Commission's apportionment.

1964. The Commission's apportionment approved by the auditors?—Yes.

1965. Which debits British Railways with £4.1m.?—Yes.

1966. And other activities with £18.8m.—that we find in Table I (1)?—Yes.

1967. Have you calculated the result of applying your method to the entire figure of assets of the undertaking?—Yes.

1968. What answer have you got—or do you not remember? If it embarrasses you to find your working papers, I can put some answers to you which we obtained. —I am quite happy to give you the answer. Corresponding to base 1 (a), if you apply it to the whole of the Central Charges and make the proper adjustments of the capital figures, the answer is £5.2m.

1969. Then there will not be anything between us as a matter of calculation. If you apply method 1 (a), as you call it, and take £147m. as the mean of the figures for fixed assets of London Transport and then make that

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the enumerator of a fraction of which the denominator is £1,810m.—that is the total assets—and apply that to the whole of the Central Charges, the figure you get is £5.2m.7.—Yes.

1970. Have you worked out that method allowing for taking out from Central Charges the figures relating to services of a special kind?—I have added back so much of the interest transferred to Special Account as refers to capital borrowings.

1971. Your figure is £5.2m. and ours, by two alternative methods, roughly brackets round £5.2m., one a little less and one a little more. I do not know whether you like a lot of mathematics in cross-examination, Sir, but if Mr. Winchester says he broadly agrees with that result, I think that is, perhaps, sufficient for my purpose.

(Mr. Fay): He has given his result; do you agree with that?

1972. (Mr. Milner Holland): That is something which, fortunately, I do not have to answer at this stage, but I will answer my friend to this extent, that calculations have been made by those instructing me on an alternative basis, and the results bracket round Mr. Winchester's £5.2m. That probably—(To the Witness): Directing my cross-examination, so far as I can, wholly to facts, there is not going to be any dispute on mathematics between you and Mr. Hill, when he gives his evidence, but if you apply your Method 1 (a) to the whole assets, you get a figure of £5.2m.?—May I just say that I think it is probably helpful and relevant to get a further calculation, when you argue that far, which is to add to the book value of the assets the accumulated deficits and make that your basis of division. Doing that, I get a figure of about £5.5m., which is arrived at by taking the figure of £66.4m. for Central Charges, which is adding back both kinds of transfer to the special account and getting the accumulated deficit as a whole and the accumulated deficit of London Transport into the figures.

1973. Where does the accumulated deficit for London Transport come from?—Exhibit PJ 14.

1974. But that figure depends upon many other things; the very calculation we are debating, the amount of the accumulated deficit of London Transport, depends upon how much you have debited it with as the contribution to Central Charges?—Yes.

1975. May we look at Exhibit PJ 14 in case I am romping ahead of anybody else—although I do not suppose for a moment I am; have you that document in front of you?—Yes.

1976. On that table the accumulated deficit of London Transport is £15½m.?—Yes.

1977. But it presupposes that there should have been contributions to Central Charges of certain figures from 1948 to 1957?—Yes.

1978. The whole of the deficit, therefore, rests or depends to some extent on the very exercise we are debating now; that is to say, how much should debit London Transport with for Central Charges?—Yes.

1979. Is it right, therefore, on any basis to take into account the accumulated deficits in working out what London Transport's contribution to Central Charges should be if the figure which we are using for that purpose presupposes a certain contribution to Central Charges?—It is all right once you get your basis agreed; I agree that you can then work on that basis throughout.

1980. But it is most unfortunate that the basis is not agreed here. If you once take into account the deficit for the purpose of arriving at what London Transport ought to have contributed to Central Charges, you are to some extent arguing in a circle; is that right?—I agree.

1981. You have to presuppose the argument that you are right, before you do it. Would you not agree, therefore, that it is probably better, if we are using the fixed assets basis, to do it upon the system that you have worked out, and we have worked out, simply saying that if it is to go by fixed assets, let us take the proportion of fixed assets which London Transport assets bear to the whole, and apportion the Central Charges?—?—But it all depends upon how far the accumulated deficit is kept under control or gets out of hand. It certainly introduces a complication which perhaps we should avoid.

1982. But again—and I am not seeking to argue my case with you; that is a matter upon which we shall

present an argument in due course—as a matter of fact, if you apply your fixed assets method over the whole assets, the Central Charges should now be about £5.2m.; that should be the figure if you do it that way?—On basis 1 (a), yes.

1983. Yes; that is what I am asking?—Yes.

1984. And of the four bases that you put forward—I think I have asked this once before, but I must just ask it again—you would agree with me, would you not, in taking the fixed assets as the least unsatisfactory of the four?—Yes; not necessarily basis (a) under the heading of Basis 1.

1985. I am sorry; I am lost?—There are two fixed assets bases, of which we have only so far discussed one.

1986. But for the moment we are dealing with groups (a) and (b) together, the fixed assets method. You would agree, would you not, that that is at any rate the least unsatisfactory?—I think that is the most helpful test.

1987. Thank you. If you were going to do the exercise after deducting the maintenance equalisation account, you then have to apportion that between London and the rest?—Yes.

1988. Is that an exercise you have done before?—Do you mean at one of these inquiries?

1989. Yes?—I am afraid I do not recollect.

1990. I had a feeling that you were trying to indicate that some part of the equalisation maintenance account represented London's contribution?—?—I have not apportioned it according to contribution, but according to need.

1991. I see that on your table the result comes to the same, whether before or after deducting Maintenance Equalisation?—Yes. If you are leaving that, perhaps I ought to complete the picture by saying that the result is not quite the same on the alternative basis that you suggest; the reason for taking the approach I have taken to this £5.6m. after deducting maintenance equalisation—

1992. We are not before an American Court; if we were, that would be characterised as unresponsive—I did not ask that question.

(President): And there are two other adjectives, are there not? My knowledge of American Courts is derived solely from the works of Mr. Gardiner, but as a rule things are characterised with three adjectives. I have forgotten what they are.

(Mr. Milner Holland): Yes, Sir—irrelevant and unresponsive, and there is another one.

(Mr. Fay): If my friend moves that it should be "stricken from the Record", I give notice that I shall restate it in re-examination!

1993. (Mr. Milner Holland): I thought the Witness had already indicated to Mr. Fay, if he had not already spotted it, that there was an impending answer for re-examination. (To the Witness): Looking for a moment at your paper WW 12, which is printed on page 117 of the Fifth Day, and looking at the top of the right-hand column, you will see your calculation after deducting maintenance equalisation; you deduct £9m., towards the bottom of the calculation, in each case from the £148m. or the £146m. Where do you get that from?—That is the figure which has been apportioned to London Transport in the Commission's books, and in London Transport's books to London Transport.

1994. For what?—For maintenance equalisation, based on the assessment of the needs of the different parts of the undertaking.

1995. Does that mean that in the maintenance equalisation account you are, so to speak—perhaps this is not correct accountancy—crediting London Transport with £9m. of it?—Yes.

1996. Out of what?—Out of £215m.

1997. Does that mean that that is you estimate—or rather the Commission's estimate, of course—of what London Transport is going to need from that fund, so far as one can see?—Yes. I do not know; the way you put it rather implies that the £215m. as a whole is an estimated need. We apportion the £215m. as a need, and having regard to the different parts, without precisely quantifying these things, we have taken £9m. from London Transport as a fair proportion for probable needs.

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1998. How does that compare, as a matter of mathematical interest, with the proportion of Central Charges which you say London Transport should bear?—It is a much smaller proportion; I should think it is roughly about half.

1999. So you seek to say that London ought to pay a certain proportion of Central Charges, but you seek to say at the same time that London Transport's call on your maintenance equalisation account should be proportionately about half that?—Yes, proportionate to their needs. It is not inappropriate in relation to the character of the book value figures.

2000. And has the £9m., which I think you told us is an estimate of what London is likely to require from that fund, any factual basis in proportion to the contribution which London has made to that maintenance equalisation fund?—I have not been into this in detail, but Mr. James tells me that as a matter of fact it is quite reasonable. I withdraw that; it is about right if decided by that criterion.

2001. If it is not your evidence, and only Mr. James's, it would not be fair to press you on it; you say you have not yourself made any calculation?—No, I have not, because that was not the basis on which it was done.

2002. I know it was not. I am sure you will see what argument may be founded on my question, and I will make it plain, although I will not present the argument to you upon it: the figure of £9m. which you have, so to speak, credited London Transport with on your table here, is not related factually to the proportion of that fund contributed by London Transport Executive?—Neither is the book value of their assets.

2003. I did not say it was. I just wanted to get things quite clear; I am getting facts, not arguing. You are, so to speak, saying that London Transport has a reasonable expectation of calling upon this fund to a tune of £9m. out of £215m.; I am asking you: Does that relate mathematically at all to the proportion of that fund which London has contributed?—The question of what London Transport has contributed is an extremely complicated matter, but it is not out of line with what they have contributed once one has followed the various ramifications of how the Commission's books were opened, which is a matter on which we have spent a great deal of time at these inquiries in the past.

2004. Yes, I know. You say that it is "not out of line with", which is a curious answer; I am asking you: Is it proportional to the amount which London Transport contributed to this fund?—I should be surprised if it is precisely proportionate to it.

2005. Do you know whether it is or not?—I am informed by Mr. James that it is within striking distance.

2006. Then I come back to where I began: If you have not made the calculation, and if you cannot answer, say so?—I would prefer you to put the calculations to Mr. James. I am not here to take you through the detail, but I have had some brief discussion with Mr. James upon it, and what he showed me looked as if it was about right. But my mind is not sufficiently informed upon it.

2007. Very well, if you say that, I withdraw that line of questioning; you have the immense advantage of saying: "This is my part of the case; somebody else can deal with the other part." I only wish that was true of me: I have to try and understand the whole thing. Now I want to ask a few questions, again, curiously enough, of fact, on the subject of replacement reserve. You have put many thoughts forward that it is desirable to make reserves on a replacement basis, and if you do not, you cannot be fairly said to be paying your way?—Yes.

2008. But I want to go a little into the question of the bus companies. You have told us in your evidence-in-chief, I think, that a number of bus companies, in framing their Applications for fares increases, do so upon the footing that allowance should be made for reserves on a replacement basis?—Yes.

2009. And that footing is accepted by the Traffic Commissioners, the Minister and so forth?—Yes.

2010. Many of those bus companies are included in the list of companies on pages 36 and 37 of your accounts; that is Table V-7. No doubt many of the companies to which you have referred in general in your evidence are

included in the list of companies owned by the Commission?—Yes.

2011. That is on page 36. No doubt many of them do, therefore, succeed in obtaining authorisation for fares on figures which include provision for reserves being made on a replacement basis?—Yes. Well, I know some of them do, and some of them do not; "many" is a rather vague word.

2012. I am content—I do not know the figures—with "some do and some do not"?—Yes.

2013. And of those who do, do they keep the money aside in a reserve for replacement?—I think it is fair to say that none of them puts it aside in a reserve which is earmarked for replacement in the accounts; they put something to replacement reserve, which would depend on whether in fact the profits were sufficient to provide for replacement.

2014. You may have to take instructions before you can finally answer this question, but I am going to put this to you: In those cases, except for some nominal figures, the whole of the resulting surplus, without setting anything aside for replacement reserve, is handed to the British Transport Commission by way of dividend?—I think "nominal" understates it.

2015. This is rather a broad question; if you want to take instructions, subject to the view of the President, I should certainly not quarrel with your asking for time to consider it. But what I am putting to you is that while these bus companies succeed in persuading the relevant Traffic Commissioners to allow them a fare scale on the footing that they should be allowed fares which would enable them to make replacement reserves, the bus companies—which of course are companies under the Companies Act—do not in fact keep those replacement reserves; they hand the surplus over to the Transport Commission as a dividend?—I am sorry, I have not the list here—I thought I had—but many of these companies do in fact make replacement reserves; whether they are nominal, or related to the amount required for replacement, I do not know.

2016. That would be a point upon which I should want to be enlightened; once you add—perfectly fairly, of course—"whether replacement reserve is nominal or not you do not know", that is the nub of the question—I do not know. It may be that many of those companies have an account labelled "Replacement Reserve"; but my question is, and I think you probably cannot answer it without taking instructions: In general, those companies do not carry to those replacement reserves the figure of money which would be put forward, quite properly, in the Fares Applications at all; what happens is that the money which, in pure financial theory, ought to be kept aside for replacement, is not so kept aside; it is handed to the British Transport Commission as dividend?—There are replacement reserves—you are not talking about the cash, whether the Commission act as bankers for the company; you are talking about the dividend distribution?

2017. I am?—Then I will look at this and see how it is dealt with.

2018. I am very grateful to you; you see, it has a certain bearing on this Application. I want to make it quite plain that I am not suggesting anything improper; the British Transport Commission is a 100 per cent. shareholder in many cases and a majority shareholder in others in these companies, and no doubt the Commission is entitled to receive it as dividend; but in general the companies you spoke about who obtained fare scales based on replacement reserve do hand over the bulk of the moneys which in pure theory they ought to keep for replacement reserve, to the British Transport Commission as dividend; you follow the question?—Yes.

2019. And I would like you, when you have had an opportunity to consider it, to give the answer to that question. Of course, the British Transport Commission do not create a replacement reserve in their accounts, do they?—No.

2020. And, of course, assuming for the moment that my question is right—I do not ask you to admit that—the money which the British Transport Commission get from these companies goes to reduce the general deficit of the Commission?—No; it appears in the profits of these companies as shown in the Commission's accounts.

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2021. But these profits of these companies are paid to the Commission by way of dividend?—Yes—not the whole of the profits that appear here, but so much of them as is distributed by way of dividend.

2022. However, we do not want to press you on this, until you have been fully informed.

2023. (President) (To the Witness): You said something about "the profits as they appear here"; where?—In Statement VI—4, on page 87 of the 1957 Accounts, Sir.

2024. You mean in the three groups?—Yes, Sir.

2025. (Mr. Milner Holland): Table VI—4 gives you in groups, the companies which show, in the aggregate at any rate, profits; each group appears to be a fairly profitable one?—They make a profit, yes.

2026. And my suggestion to you for your consideration—I do not want to keep on pressing something which is already plain, but I do not want there to be any ambiguity—is that a substantial sum of those net receipts come to the British Transport Commission as dividend?—Yes.

2027. And that in general in deciding on those dividends, moneys are not kept back in the bus companies to provide replacement reserves?—Nothing is kept back and earmarked as replacement reserve; a certain amount is placed to general reserve, which is intended for replacement, but—

2028. But the point is that these companies do not keep in those reserves figures which represent the replacement values on which they have based their application for fares to the Commissioners—in general?—I am not quite sure how soon I can answer the matter in detail; that involves finding out from each company whether it in fact included replacement reserves in its Application. I could produce a specific one if that would be of any help.

2029. Perhaps I can produce a specific one; I do not want to produce them all. You have put forward in your evidence, as an argument to support basing fares on the replacement reserve—I want you to be quite candid about this—no doubt properly, that a lot of these bus companies justify fare scales on the basis of a reserve for replacement; I think you may be able to give an answer to this in general: Would it be quite wrong to assume that the companies who get these fare scales on the basis of replacement reserves in fact retain reserves sufficient for replacement, and that in fact in general those companies hand over to the Commission as dividend sums which are greatly in excess of that which they would need if they kept in their hands the replacement reserves?—I will certainly look into the detail, but I can say that not only these companies, but the other companies not owned by the Commission would not in fact put a provision for replacement reserve until they had earned and distributed a reasonable amount of profit and dividend; I think that is the universal practice.

2030. I think your last answer was really saying that profit comes before reserves?—A modest amount of profit; a reasonable profit.

2031. Before reserves?—Before replacement reserves, yes.

2032. If you are going to look at any particular detailed ones—?—which are comparable to how our case is being presented here. We are saying that the first call on the net receipts of London Transport is Central Charges; the next is replacement reserve. Central Charges is equivalent to a modest dividend, and I would say that that is fairly universal practice with the companies—first of all to take a fairly modest profit and then to see what they ought to put to reserve. But I will certainly go into the details of the Tilling Companies, if you wish me to do so.

(Mr. Fay): I know my learned friend has not meant to mislead anyone, but in point of fact it was not the Tilling Companies by and large about which Mr. Winchester was speaking in chief; it was non-controlled companies in the B.E.T. group.

2033. (Mr. Milner Holland): I will deal with that at once. Not only had I not intended to mislead, but I have not misled anybody. What Mr. Winchester was saying in his evidence-in-chief in respect of the replacement reserve basis was that many companies obtained fares on the footing of making reserves on a replacement basis; he did not say which they were. My learned friend has made a suggestion that I may have misled somebody, and I can answer that at once; I first asked this: Is it not true that many

of such companies are included in the list of companies owned by the British Transport Commission; Mr. Winchester did not accept the word "many", but he said that some were and some were not. I then proceeded to ask whether those companies which are owned by the British Transport Commission do not in fact not retain these reserves, and I quite repudiate any suggestion, overt or direct, that I have misled anybody. (To the Witness): If you are going to look at any detailed case, is United Automobile Services one of the companies owned by the Commission?—Yes. They put £10,000 to reserve in 1956; whether that was adequate or not, I do not know.

2034. You have that figure—it was quoted and accepted by you; they put £10,000 to reserve in 1956?—Yes.

2035. Do you know the figure which the company put forward as requisite for depreciation of assets on a replacement cost basis?—Yes.

2036. Would it surprise you to hear that it was £108,022? You see, it so happens that you quoted a figure which is on the table in front of me, and I would like to pursue it. Is United Automobile Services Ltd. a company which is wholly owned by the Commission?—Yes.

2037. And they put aside £10,000 to general reserve in 1956; that is your figure?—Yes.

2038. What I am putting to you now, and you may wish for time to check it, is that that company in effect in its Applications for fares put forward a figure of £108,022, which is more than ten times the figure that they have in fact put to general reserve?—I should like to check that.

2039. Yes. I am putting the figure first, as the difference between reserves on a replacement basis and reserves on an historical cost basis. That is my question; please do not answer it until you have checked it. I want you to understand the full impact of this suggestion: It is that when United Automobile Services Ltd. were applying for fares, they put forward a figure of £108,022 as the additional reserve required to bring reserves up from the historic to the replacement basis, and in that very year the amount they put to reserve was £10,000.

(President): Did they get the fares fixed at the level at which they were asking them to be fixed, Mr. Milner Holland?

(Mr. Milner Holland): I would like Mr. Winchester to take instructions about that, but I will find that out, Sir.

(The Witness): I do not see how it is relevant to the argument—

2040. (Mr. Milner Holland): Mr. Fay will deal with that; I am just asking you the facts. It happens to be important to the argument I am going to put. While, no doubt, such a basis was put forward for fares, I just want the facts, and the United Automobile Company will do as well as any other example of the bus companies that you own which put this forward, which do not in fact follow precept and practice and do in fact distribute all but a small amount. That is the fact which I want you to check?—You ask me to check it in respect of one company?

2041. I would be content if you would care to check it with any other, but I happen myself to be able to take one, and I ask the general question as well.

(President): I hope we shall not have to re-try these express carriage Applications, Mr. Milner Holland; that is one of the mercies which we enjoy—that we do not have to deal with appeals, so far as passenger Applications are concerned.

(Mr. Milner Holland): No, Sir; I would not ask you to do that.

(Adjourned for a short time.)

2042. (Mr. Milner Holland): Mr. Winchester, when the Tribunal adjourned I think just before the adjournment you had said that you thought it was justifiable to have a modest distribution of dividend or profit before putting money to reserve?—Yes.

2043. And I think you instanced, for the particular case they are thinking about, the contribution to Central Charges as a sort of first priority, and then, as a second priority, the reserve?—Yes.

2044. Were the words "modest contribution to dividend" your words; they were, were they not?—Yes.

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2045. You did say in answer to my general question that in one case you knew of, the United Automobile Company, they had put £10,000 to reserve?—Yes.

2046. And that was, according to my information—and possibly yours too—for the year 1956?—Yes.

2047. Do you know in fact what that company distributed in dividends that year?—I do not, but I can find it.

2048. Can I give you the figure, so that you may check it; would £305,000 be right?—I will check that.

2049. I am sorry; I have understated it. Would £311,037 be right?—I will check it.

2050. And that is the dividend, I am suggesting to you, net, after tax?—Again, I will check that.

2051. Before you start checking it, let me give you all the material to which you can apply your checks. Of course, I do not expect you to answer at the end; I want you to check these figures: For the year 1956 the profit before tax was £516,613. This is a company which is wholly owned by the Commission, is it not?—Yes.

(Mr. Fay): Is that the net profit?

2052. (Mr. Milner Holland): No, before tax; it is otherwise net. (To the Witness): Tax was £196,934; the sum put to reserve was £10,000, and the sum distributed to the Commission was £311,037?—Yes.

2053. You are far too frank a Witness to challenge me, are you not, if I say that that is hardly a "modest" distribution of profit before putting to reserve?—I do not know. I do not know what the capital invested in the business is, and I do not know the surrounding circumstances. Whether it is modest or not depends on the surrounding circumstances.

2054. I accept that. I would like this generally as well, while you are taking a note of the figures: The figure which that company put before the Traffic Commissioners as the proper sum additional to historic depreciation which ought to be put aside—additional to historic depreciation—to bring it up to replacement for that year, was £108,022?—Yes; you have given me that figure, and I will check it.

2055. Does it surprise you, if that is the case in one of the companies, that London may be a little nervous of the fact that when you are asking this Tribunal to allow you to put the fares up so as to obtain from the London Transport Executive £3m. addition—are you surprised that London may be feeling a little nervous that all that will do is to go to help the Commission's deficit?—If you would like some assurances on that, I expect we can give them to you.

2056. I think we might; but is not that what will happen?—No.

2057. Are you going to treat London differently from the way you treat your bus companies?—You asked me to look at the facts in this case; I will do so.

2058. I want to ask one other question, but I would add again that if you ask for time to answer it, I should not in the least object: Are there a number of bus companies owned by the Commission in which the facts are similar to those quoted in the case of United Automobile Services? You probably cannot answer that question?—No.

2059. But I shall want an answer to it, subject to the views of the Tribunal, before we finally part from the evidence. While we are on depreciation, it is, to use the word in another sense, an historical fact that up to now depreciation in the Commission has been on the historical cost basis?—Yes.

2060. And now, at the beginning of 1959, you are basing an Application to lead to higher fares in London on a different policy, namely the replacement cost basis?—I think it is fair to say that we have asked to be allowed sufficient profit in London to provide for replacement since 1950.

(Mr. Milner Holland): I do not know about that myself.

(President): That is true, Mr. Milner Holland; the reserve part of the case has always appeared at the bottom of the requisite tables.

2061. (Mr. Milner Holland): I must deal with that in argument, if necessary, but I put it in the form of a question—I must not ask the President questions: There

has never been an Application in which you have asked specifically for increased fares to cover such a figure for depreciation reserve as £3m.?—No, because the facts were different. The requirement for replacement was not £3m. in 1950; the requirement then was calculated at £2m., and that was the figure included in the Statement.

2062. Then let me follow you. Here, unlike most cross-examining Counsel, I do not know the answer in advance of asking the question, but was the Application for £2m. more money than you needed to meet the difference between working expenses and working receipts?—There was some complication, in that the particular fares we were asking for did not quite yield the whole of the requirements as we assessed them, but there certainly was a margin over and above Central Charges in the amount we applied for.

(Mr. Milner Holland): There will be argument as to what was appropriate—

(President): I was looking at the table which was put in by—I think it was Mr. Wilson then—at the first inquiry, in which I was not taking part. It was Table RHW 4, and it is to be found at page 27 of the proceedings at that inquiry. It deals with the London area, both London Transport and London Lines, and it is headed: "Revenue requirements from passenger operations in 'X' year", and the last two items in lines 15 and 16 are: General Reserve including liquidation of accumulated deficits, £2m.; replacement reserve £2m. That was, in other tables, or at any rate in evidence, divided as to £1.5m. for London Transport and £0.5m. for London Lines.

(Mr. Fay): And that is in fact referred to in my opening observations in this case, Sir.

(President): I am sorry, but I seem to have forgotten every word of your opening, Mr. Fay.

(Mr. Fay): I do not complain of your forgetting it, Sir, but I do complain that my learned friend has forgotten it.

2063. (Mr. Milner Holland): That should be addressed to me, not to the Tribunal. (To the Witness): Do you seriously consider that now is a good time to seek from London Transport an additional £3m. for this purpose?—Any time is a bad time to put up fares, Mr. Milner Holland. I should have thought that this was not such a bad time as some.

2064. I suppose there might be times when the goodwill of your customer is lower, but I find it difficult to imagine when it might be. Have you studied the general table indicating the discounts for which you have budgeted on these matters?—Yes.

2065. Is this right, without bothering about figures—I am sure you must have looked at the table—that the discount this time is to be 42 per cent.?—I am sure that is not a useful way of calculating it—

2066. Maybe not; add any qualifications you like in a moment, but the actual total figures on the discount table show a discount of 42 per cent.?—No; if you divide the net yield by the gross yield, you will get that answer, but I do not regard that as properly described as a discount. The discount is the discount on the total traffic. I am not disputing—

2067. I will not present anything to you which you cannot accept for the moment, except one simple piece of mathematics which I am anxious to have agreed, if I can. The mathematics arise from the totals of Mr. Harbour's table BH 15, in the bottom right-hand corner, and I ask you this question: The yield of the increases for which you are asking, if everyone continues their travelling habits as at present, is estimated to be £18.131m.?—The yield of the maximum powers for which we are asking?

2068. Yes.?—Yes, that is right.

2069. You seem to be making a qualification about the maximum powers, but do you agree with Mr. Harbour that it is the intention of the Commission to apply the maximum?—Ultimately.

2070. So there is no question but that ultimately the maxima are going to be applied?—That is the intention.

2071. Having got that from you more readily, if I may say so, than I did from Sir Reginald—if indeed I ever got it from him—may I ask you this: The total yield of the Application of the maximum powers if

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[Continued]

everyone maintained their travelling habits as at to-day would be £18·131m.?—Yes.

2072. The yield which your Commission and your experts calculate will be given by the increases when fully applied is £10·53m.?—Yes.

2073. And £10·53m. is only 58 per cent. of £18·131m.?—That will be right, I am sure.

2074. I am not asking for your personal views as to the proper use to make of these figures; I shall make my submissions about that. But it is the fact, is it not, that if your travelling public, in the view of the Commission, were willing to accept these rises and take them in their stride and continue their travelling habits, you would get over £18m. from them?—Yes.

2075. And your own view is that you will get a little over £10m.?—Yes.

2076. In the light of those figures, do you not think that an increase in fares which is likely to produce such a serious falling-off in traffic is being made at a time when you ought, in the interests of the Commission, to make the smallest possible increase and not the increase that you propose?—I do not regard these expected losses as excessive. If you are selling something too cheaply, when you put up your price you will sell less, and the amount by which we will sell less is fairly normal I think. It is an unfortunate fact that when we charge a proper price there are less passengers.

2077. I do not want to take you through all the details of the discount—I am afraid I must pursue that with Mr. Harbour—but among other things you contemplate a loss of 7½ per cent. of all your season ticket travellers on London Lines?—Yes.

2078. And a loss of 5 per cent. of all your season ticket travellers on London Transport?—Yes.

2079. Do you not regard those as very serious losses of traffic?—We regard them as very unpleasant, yes.

2080. And my question to you—I was really on replacement reserve—is: Do you not think that this is not a very good time to pursue an idealistic exercise in getting your reserves up, when you have not done it in the past?—May I understand this? Are you assuming that if we did this at some later date, we should estimate the discount differently?

2081. I am not contemplating your doing it at any other date particularly, but I am asking you whether you do not think that now of all times is a bad time to pursue an ideal such as this, when your traffic goodwill is plainly so shaky?—I am sorry; the figure you have given to me is not a characteristic of the present moment, but of the fare structure and the increases we have to make.

2082. Since you have given that answer, let me ask you a terribly simple question; it may sound rude, but it is not meant to be rude. Of course, if you made smaller increases you would get in the ordinary course of events a much smaller discount—a much smaller loss of traffic?—Again, I am not an expert on this, but I would have thought not all that different.

2083. I did not say “all that different”; I only asked you quite a general question: The difference between what you would get if nobody gave up, and what you budget to get, which is 58 per cent. of that, is due partly to the size of the increase, is it not—that is?—Yes.

2084. If all you were doing were to put one or two fares up a small amount there and there, you would get a smaller proportionate loss of traffic; that is what I am asking you?—I think the answer is not so obvious as you

imagine. On ordinaries, for example, I doubt whether it would make any difference. It is arguable that it might make some difference on seasons if there were a smaller increase, but on ordinaries it is made fare by fare.

2085. Forgive me; it seems so obvious a proposition that I am not going to press it. If you cannot answer yes, I will not press it?—Mr. Harbour can answer it.

2086. Yes; he is the witness to whom I ought to address my questions on discounts?—I do not accept that the figures here show that the present moment is particularly unpropitious.

2087. I follow that you say that, but I was not really asking you to do more than agree with me that at the moment the passenger goodwill in London Transport is not very high?—Again that is not a matter on which I am an expert, but I would not have thought it particularly low; it is always exacerbated by these inquiries, as you will appreciate.

2088. I do not want to dig up anything which is not relevant to this inquiry, but for one reason or another with which we are all familiar, passenger goodwill is not very high in London Transport at the moment; that is a fact, is it not?—I am not in close touch with it, and again I think the London Transport witnesses are in a better position to answer that question.

(Mr. Milner Holland): I am content to leave it at that. Normally, Sir, I should, if I wanted to question Mr. Winchester's allocation of costs on London Lines, put the questions now, but I think I have had an intimation from you that I can deal with it at a later time?

(President): Yes; I gather the case is still under consideration.

(Mr. Milner Holland): I should have thought destruction, Sir.

(President): Very well—re-consideration.

(Mr. Milner Holland): In due course, in argument, I desire to make some points on the question of the treatment of replacement reserves in companies which are owned by the British Transport Commission; I have asked Mr. Winchester some questions which quite rightly he has said he cannot answer off-hand. In those circumstances, therefore, may I leave them unanswered having intimated that I would like the answers?

(President): Yes, you can come back, Mr. Milner Holland. You are reserving your cross-examination, both on the London Lines working expenses estimates and on this particular point with regard to the case of United Automobile Services?

(Mr. Milner Holland): Yes, and the other companies.

(Mr. MacKenna): I think Mr. Winchester and Mr. James have dealt with the matter of London's contribution to Central Charges and with the supposed need for the replacement reserve. I do not want to duplicate cross-examination, Sir; I have spoken to Mr. Fay, and I understand that the convenient course would be for me to put my questions on these and other matters to Mr. James, and that no point would be taken against me that I have not put them as well to Mr. Winchester.

(President): Certainly, Mr. MacKenna; if after your experiences with Mr. James, Mr. James says that there is something which is more within Mr. Winchester's knowledge then Mr. Winchester will come back and you will be given an opportunity to cross-examine him then.

(Mr. MacKenna): There is one small point on one of Mr. Winchester's tables, Sir; perhaps I may be allowed to ask him about that?

(President): Yes.

Cross-examined by Mr. MACKENNA.

2089. I want to ask you about this Table WW 12, on page 117 of the Minutes of Evidence. You will see there Basis 1, “Net Book Value of Fixed Assets”; that is divided, is it not, under two heads: (a) Before deducting Maintenance Equalisation, and (b) After deducting Maintenance Equalisation. My questions are related to Head (b); the first figure about which I want your help is the figure of all activities for 1957, which is stated to be £1,617,000,000?—Yes.

2090. Am I right in thinking that that is a figure which I will find at page 5 of the 1957 Accounts; that is Account 1-27—Yes, it appears there.

2091. May I just see that I understand the figure. It is obtained, is it not, from adding together the figures of £10m., £3,900,000, £596m., £964m. and £42m?—Yes.

2092. The figure of £964m. is itself the result of deducting from a figure of £1,203m., for land, buildings, etc., the

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[Continued]

figure for maintenance equalisation account, £238m.?—Yes.

2093. Is that right?—Yes.

2094. Would you turn next to page 57, Table V—11; do I find there the explanation of the figure of £238m., the maintenance equalisation figure which I was looking at in the earlier table?—You can find what has happened to that in 1957, yes.

2095. The balance at the end of the year is £238m.?—Yes.

2096. And that is the same figure that I was looking at on the earlier page?—Yes.

2097. Does page 57 show how that figure reached the level of £238m.?—Starting from the 1st January, 1957, yes.

2098. And it reaches it after taking account of things that had happened during the year, by adding to £214m. two amounts of £12m. each, one the provision for taxation transferred to this account, and the other transferred to this account from provision for contingencies, £12m.?—Yes.

2099. So at the end of the year 1957 the maintenance equalisation account would appear to be £238m.?—Yes.

2100. Then, when I turn back to Exhibit WW 12, under Head (b), I find the figure of £1,617m. at the top of the page under "1957"?—Yes.

2101. Then I get the British Railways figure of £1,426m.?—Yes.

2102. And then you deduct maintenance equalisation account, £215m.?—Yes.

2103. And then a little further on there is the maintenance equalisation account figure of £9m., which is the London proportion of £215m.; is that right?—Yes—the London proportion of the £238m.

2104. Of the £238m.?—Yes.

2105. Will you just help me about the figure of the £215m., the first figure; why is that £215m., and not £238m.?—That is the British Railways proportion of the £238m.

2106. I do not understand that; you say that is the British Railways proportion of the £238m.?—Yes.

2107. And then the £9m. is London Transport's proportion of the £215m.?—Of the £238m. again.

(The witness withdrew.)

(Mr. Fay): I tender Mr. Harbour for cross-examination.

Mr. BRIAN HUGO HARBOUR, recalled.

Cross-examined by Mr. MILNER HOLLAND.

(Mr. Milner Holland): After a short moment, when I thought I had lost my papers—

(President): Have you found some of them, Mr. Milner Holland? Quite seriously, would you like a few minutes to make certain that you have them all, including such notes from your Junior as you do not propose to use?

2109. (Mr. Milner Holland): No, Sir, I think I am all right. I hope I am, but you will have to judge of that in due course! (To the Witness): Of course, you realise, do you not, that there are a number of topics on which I shall want to ask you some questions, so perhaps I can give you the order in which I shall ask them, so as to help you sort your papers. First of all I shall ask you about early morning fares; next I shall ask about season tickets; next about all-night services and then we might tackle some figures of discount. Then, if there is time, we might talk about the 1959 budget. Those are all subjects of yours, are they not?—They are.

2110. That is a relief; it means that I have my book open at the right page. First then, early morning fares: This is not a matter, is it, which makes a great deal of difference in terms of money?—I do not know what you mean by "a great deal of difference"; it is a significant element in the computations that we have been making of yield, gross and net, so I would not agree—I cannot agree with what you have put. I forget the exact phrase you used, but I cannot agree that it does not add up to very much, if I may use that colloquialism.

87565

2108. I see. And then the difference between the £215m. and the £9m., which is £224m., and £238m.—where has that gone?—That is apportioned to the remaining activities other than British Railways or London Transport in arriving at the figure of £402m. for activities other than British Railways.

(Mr. MacKenna): Yes; I think you have explained that, and I am very grateful to you for the explanation. They were figures that puzzled me a little at first.

(President): Is there anyone who is present who desires to cross-examine Mr. Winchester? There is no one at the Bar, at any rate.

(Mr. MacLaren): I wanted to ask, Sir, if I might defer my cross-examination, as Mr. Winchester will in any case be recalled. If I am allowed to do so, the probable result may be that I shall have no questions; but I am awaiting further instructions in the morning.

(President): That is an attractive prospect, Mr. MacLaren, but I am not sure that the odds are long enough. Why have you not instructions to-day?

(Mr. MacLaren): This only results from the proceedings as they have taken place so far—

(President): Yes, that would be so; but you were aware some considerable number of days ago that Mr. Winchester was going to be recalled for cross-examination, were you not?

(Mr. MacLaren): Yes, Sir, but I was interested in the answers being given yesterday.

(President): Very well, Mr. MacLaren; I shall not hold you to your intimation that you may not want to ask any questions, but I should be fairly rigid in keeping you to a short allowance.

(Mr. Fay): Like other witnesses, Sir, Mr. Winchester is a busy man; I cannot undertake to have him here on a particular day to suit my learned friend's convenience. No doubt, however, we shall be able to arrange that between us.

(President): Yes, Mr. Fay; as a rule we get on very well at these inquiries. You cannot re-examine now?

(Mr. Fay): No, Sir.

(President): And we shall not ask any questions until everyone at various times has cross-examined, and you have re-examined.

(The Witness): Thank you, Sir.

2111. I will reframe my question slightly: Is the Commission anxious to get rid of early morning fares altogether?—They are anxious to get rid of early morning fares as an obligation; they are anxious to get rid of the obligation to issue early morning fares.

2112. Yes; I heard that phrase from a previous witness, but let us get this straight between us. It is the intention eventually to apply all these powers, is it not? I put the word "eventually" so that you will have no need to qualify it?—It is our intention to make full use eventually of the additional charging powers now being sought.

2113. Is there any difference?—I would like to go on if I may. That is not to say that each one of the fares in the London Area will be pushed up to the maximum specified in the Scheme. I would agree that we would have the power to do this if the present proposals were approved by the Tribunal; but the use of the new powers will be influenced by need and by practical commercial considerations. In practice, what we shall endeavour to do in the years ahead is to adjust fares in the light of requirements and in the light of the economic circumstances prevailing, so that in due course London Transport and the London Area as a whole is put on a proper financial basis. By that I mean a basis upon which the passengers using the services provided pay the cost of their ride and no more. That is the eventual objective.

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[Continued]

2114. Forgive my asking you what might seem to be an impertinent question, but it may be important: Is the answer that you have just given an answer which has been put on a piece of paper and given to the Press today?—It was most certainly not—by me at any rate.

2115. May we just look at your answer in your evidence in chief in which you indicated what use the Commission intended to make of the powers, if granted; it is at Page 62 on the Third Day, Question 359. I did not anticipate any difficulty with you, but I shall have to put the question to you again. At Question 359 on the Third Day, Her Majesty's Stationery Office have you recorded as saying: "I must make it clear, however, that it is intended eventually to make full use of the charging powers sought by this Application". That is quite a short sentence; is it wrong in any respect?—No, it is not.

2116. Thank you; that is all I want to know. It seems to me that that statement is in line with the question I asked you, and not in line with the answer you just gave, lengthy as it was?—The trouble with—

2117. Now I want to come back to the subject of early morning fares. You are intending, are you not—and I will add "eventually"—to get rid of early morning fares?—It is our intention, if these powers are granted, eventually to get rid of early morning fares. We shall do it by stages and we have declared for many years the views that we hold with regard to this particular concessional fare.

2118. Mr. Harbour, the answer is Yes?—Yes.

2119. Thank you?—There are some questions which require a qualification; they cannot be fully answered by the single word Yes.

2120. I am entirely at the hands of the President, but I asked a question, and I hope you will deal with the matter as fairly as I shall try to deal with you. The question was: "Is it not your intention eventually to get rid of early morning fares?" I think you will agree that that question is capable of the answer Yes, and that was the meaning of your answer, was it not?—And that was the answer I gave you.

2121. Well, it was not. I want you to appreciate and I ask you therefore, do you appreciate, that the London County Council is anxious if possible to preserve what is left of the early morning fare concession for Londoners? You can understand that, can you not?—Yes, I can understand it—I appreciate it.

2122. I have not the figure at my finger tips but you can immediately, and I can without a great deal of trouble, see just what is involved in the early morning fares as a matter of money. The answer is that it is £1.6m. eventually?—That is the discounted yield of the removal of early morning fares throughout the London Area.

2123. Yes; again my question was quite accurate: The amount involved in withdrawing the early morning fares concession is £1.6m.—"Yes", Mr. Harbour?—Yes.

2124. And its importance or lack of importance depends, of course, upon whether, when the Tribunal have considered the matter, they think you are asking for too much money or not; but the figure out of the total eventual estimated yield is £1.6m. out of £10.5m., is it not?—Yes.

2125. And would you consider this: Supposing the Tribunal were minded—and I have no idea, and I am sure they have not until they have heard the whole case—to say that the figure to be raised should be a little less than £10.4m., would the Commission be opposed to the idea of what I may call giving priority to the early morning fares and dropping that priority if, from your point of view unhappily, you were not granted the total figure applied for? Or would you give another priority?—We should be opposed to that priority. We take the view that the early morning fare is an anachronism these days and it is a concession that is not justified fully by any benefit to the Commission's undertaking.

2126. Yes; but you will agree that as well as the consideration that it will benefit the Commission's undertaking, there is the element to consider of a valuable and useful service to be rendered to the public?—I would not agree—

2127. You would not?—In trying to answer your question I would agree that there is a valuable—

2128. No; you misunderstand my question; probably it was badly phrased. In answering my question, you said you would not agree that if anything had to come out it should be first of all early morning fares, because you said it was something which did not confer any real benefit on the British Transport Commission, but my question was: you would, I suppose, also, as a valued servant of the Commission and of the public, concede to me that there is another consideration besides the benefit to the Commission and that is the provision of a service to the public?—I would certainly agree.

2129. I thought you would. Are you saying that the facility for persons who have to travel early, or who are prepared to travel early, to travel a little more cheaply than others, is socially wrong?—I would say Yes.

2130. Why?—I see no purpose in cheap fares for persons who have to travel at a particular time.

2131. May I suggest one purpose which confers a benefit on the Commission? Here I am trying to align myself with Sir Reginald: The granting of a concession for people who travel before a certain hour tends to get people away from the peak hours of travel, does it not, at that end of the day?—I doubt that very much indeed.

2132. Why?—Because I do not think—and I can only speak for myself and from my own experience—that price in urban travel and from work is a significant element in determining the time at which the travel takes place. My experience tells me that the time of travel is dictated by the time at which work starts and at which it finishes.

2133. In other words you think that people just take adventitious advantage of the early morning fare and do not travel a little earlier in order to get it?—Not to any significant extent.

2134. Yet if you operate the withdrawal of the early morning fare obligation, you estimate a very substantial loss compared with the gross yield?—Yes.

2135. Why is that, if your view is right that people do not travel early in order to get the fare but merely pay the fare which happens to be the fare ruling at the time when they travel?—My reason for saying that is that the amount of the increase envisaged in these ultimate proposals is fairly high.

2136. Yes, it is. Of course, what is behind that—and I am coming back to it—is this, is it not, that not only will the people who are accustomed to travel before 8 o'clock, or whatever the period happens to be in the relevant service, lose their early morning fare concession, but they will have to jump from there to an enhanced ordinary fare?—They will have available to them two sorts of fare; they will have the ordinary fare, which I agree under these proposals there is power to increase, or they will have season tickets in one form or another, which I also agree could be increased under these powers.

2137. Since you have mentioned season tickets—and I am coming to them in more detail later on—your own tables disclose that your own proposals for season tickets make season tickets unprofitable, as opposed to ordinary fares, for quite a considerable distance?—No.

2138. You do not agree. Very well; we will look at it in detail in due course. Let us have the figures: The early morning fares proposal on your estimates would yield £2,837,000 if everyone so to speak, took it without blanching, but in your view they will only yield £1,600,000. That is the measure of discount that you apply?—Yes.

2139. I have not worked out the percentage, but it is well over 40 per cent., is it not?—Well over.

2140. Do not admit a thing; I will work it out and put it to you later on. You used two words with regard to early morning fares; you said first of all that they were an anachronism, but I am not quite sure what you meant by that. Do you mean that it is an old-fashioned idea that people should travel early to work and get a concession?—I do. I think it is out of keeping with modern ideas in modern times. In saying that I am not saying that there is no scope for concessional fares within London or anywhere else. I am dealing with London, and there is a place in the fares structure for concessional fares at the discretion of the management—concessional fares which will, by their use, add to the net revenue. There may be some scope for some concessional fares early in the morning for particular purposes; but the conception

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[Continued]

of early morning fares as written into the existing Charging Scheme, and as we have had it in the past, I suggest is an anachronism in these days.

2141. I follow ; you think it is an anachronism, which is what your answer means, but do you not agree that the idea, old as it may be, is a good one, that quite a lot of people who have to travel early in the morning are persons who are paid rather less than others and that therefore they ought to have a little concession on their fares?—First of all, I do not think that fares should be fixed in relation to capacity to pay. I think it is quite a proper principle that fares should be based on the cost of the ride and whether certain classes of people should be assisted in their journeys is, I think, a welfare matter and not a matter for the transport undertakings. With regard to what I said concerning the ability to pay, there may have been in many years past a case which could be argued that people who travel to work before 7.30 or 8 o'clock in the morning were in a low-earning group, but I do not think that applies today.

2142. I understand from that that you are not questioning that a lot of the people who get the early morning fare concession today are lower paid workers; you say as a social expert that there is no reason why they should get any concession?—No. I am questioning whether your statement that people who travelled before 7.30 or 8 o'clock were in a lower earning group than those who travelled after, and I suggest that that is not the case today.

2143. As an expert, who would you say are the sort of people? Are office cleaners a good example?—No, they are not; they are a very limited example of people who travel before 7.30 or 8 o'clock. The people who travel before 7.30 or 8 o'clock are in the main industrial workers—people working in factories and other industrial establishments.

2144. And that is true of London, is it?—That is true of London as a whole.

2145. I think you have given this answer, but I want to know for certain: Do you say that the early morning fare does not attract people at all?—I do say that—from the point of view of attracting them to take the journey in advance of the time they really need to take that journey.

2146. When you gave your evidence in chief you produced a table, Exhibit BH 13, showing the municipal undertakings and companies which had withdrawn workpeople's fares in recent years?—Yes.

2147. That shows 44 municipal undertakings which have withdrawn the early morning fares and 21 companies which have withdrawn the early morning fares?—Yes.

2148. May I now take it that although I may have thought differently at the time, you were not intending to give the impression that that was the universal picture?—No; I was only giving the information on Exhibit BH 13 of undertakings, whether they be municipal or company undertakings, who had to my knowledge taken this step. I was not attempting to give a universal picture in sense of canvassing the position of every transport undertaking in the country.

2149. I understand your evidence was that these were simply examples of municipal undertakings and companies which have abolished early morning fares?—Yes.

2150. Would you look at your answer; it is the answer to Question 385; at that question Mr. Fay said: "And do you produce, to save going through a lot of evidence, Exhibit BH 13?" and you answered "Yes", and you went on to say: "This Exhibit shows 44 municipal road passenger undertakings and 21 bus companies who have withdrawn what are called workmen's tickets in some cases and early morning tickets in other cases since October, 1951. This list had been compiled on the basis of a questionnaire which was sent out in 1956 by the Municipal Passenger Transport Association and reports made in the various technical journals which circulate in the road passenger transport industry". Then Mr. Fay said: "One sees, looking down the list, some big cities: Bradford, Cardiff, Newcastle and Bristol" and you answered "Yes, and Edinburgh and Manchester, and the large group in Bristol, as you say". You were not asked to, but you did not in fact tell us what we now know, that as a result of the questionnaire sent out in 1956, 44 on your list of municipal undertakings have withdrawn early morning

fares, but 43 still operate them?—I did not say that at the time, but it is right.

2151. I just want to get the fact quite accurate. So that had you been asked—and if you had I am sure you would have given the answer—how many people answered the questionnaire, the answer would have been that in fact you obtained particulars of 87 municipal undertakings?—It was 96.

2152. We will have the whole figure; had you been asked you would no doubt have answered that although your list showed 44 who had withdrawn, the answers to the questionnaire showed 43 who still operate early morning fares; that is right, is it not?—May I add in answering your question with a simple affirmative: Analysing the questionnaire, there were 96 replies received and of the 96, 53 undertakings do not now operate workmen's fares; the 53 is composed of the 44 on my list, BH 13, plus 9 who—

2153. It is 7 who never operated them at all and who therefore never abolished them, and 2 abolished them many years ago; is that right?—Yes, and that leaves 43.

2154. Then there are 43 authorities who are still operating early morning fares against 44 who have abolished them in the last 10 years?—Yes.

2155. And you can add that 7 have never operated them and 2 abolished them many years ago; that is the full picture?—Yes, that is the full picture.

2156. While we are still on early morning fares, the effect of a withdrawal of the early morning fares would be more serious to those who previously were able to get them, as the distance gets longer; that is right, is it not?—Yes.

2157. Because, of course, the early morning fare is a 9d. fare, is it not, up to—?—There are two classes of early morning fares. There is the early morning single of 9d. and then on the railways there is an early morning return, which is on a mileage scale.

2158. Yes, but it is much the same; it is 9d. for the outward journey and full fare for the return journey?—Yes, the 9d. single having the limited range of up to 10 miles, I believe.

2159. You get a return ticket on the railways but it is calculated on the basis of 9d. for the outward journey plus the full fare for the return?—Yes.

2160. And the single is 9d. So it is right, is it not, that the effect of the withdrawal of the early morning fare scale is more serious the longer the distance you have to travel?—Yes.

2161. Is that right?—I think it is, but may I just confirm it? Yes, you are right.

2162. For a fixed sum for a certain distance and any distance beyond it, should you abolish them and then charge on a mileage scale, the impact of the withdrawal of the early morning fares must be more serious as the distance gets longer?—I agree with the longer distance, but you are not quite right in the way in which you are calculating the early morning return. The 9d. fare is a single fare on road services only on a limited number of mileage categories between 5 and 10. The early morning return fares are shown in the schedules of the Scheme and they go right through; they extend up to 60 miles.

2163. I know they do, but whilst I am almost certainly wrong if you say I am, I think I am right in saying that the early morning return fare is based on 9d. for the outward journey and the ordinary mileage charged for the return journey; is that not right?—No, it is not right.

2164. Is it only wrong by some fractional amount?—No. I want you to recognise this, if I may put it that way, that the 9d. early morning single fare is a special fare for road services applying to mileages between 5 and 10 and that is related to the scales of early morning return fares which are separately specified and which in fact are built up in the way you have suggested, but only between 5 and 10 miles.

2165. There is no early morning concession below 5 miles anyway?—No.

2166. So I am right up to 10 miles?—Yes.

2167. And above that?—Above that there is a separate scale altogether and there is no 9d. early morning fare applicable.

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[Continued]

2168. But my question, however much my mathematics, or knowledge of railways fare systems, may be defective, is still right and susceptible to the simple answer Yes? The effect of the withdrawal of the early morning concession gets more serious as the journey in question becomes longer?—Right.

2169. And your estimate of discount for the early morning fare, if it were abolished, indicates a loss of 10 per cent. on rail and 5 per cent. on road; is that right?—Not quite. My discounts are based on the assumptions shown in Exhibit BH 16: on British Railways London Lines a discount of 15 per cent. for loss of traffic, with a qualification that some will transfer to returns and weekly seasons in the case of five- and six-day travellers; on London Transport Executive Railways 10 per cent., and on London Transport buses 5 per cent.

2170. I have left out the one which you expected me to draw most attention to because it is the heaviest. So it is 15 per cent. on London Lines, 10 per cent. on London Transport and 5 per cent. on road services?—Eventually, yes.

2171. Can you and I agree that "eventually" is understood in every answer referring to these rises, because I cannot deal with these tables if you are going to hedge every single time and say "eventually". These tables which you have constructed presuppose certain discounted losses. We know, because you have told us again and again and again, that you do not propose to impose all these rises at once, but we also know that you do eventually intend to impose them all. May we please have that understood between us?—I will only refer to the word "eventually" if it is really necessary.

2172. Without any qualifications, you are budgeting for a loss of 15 per cent. on London Lines, 10 per cent. on London Transport, and 5 per cent. on road services when you eventually remove the early morning fares concession. That appears from Exhibit BH 16?—That is so.

2173. Would you agree with me that the people who travel at the moment at times when they get early morning fares, however worthy or unworthy, are people who pretty well have to travel, who are not pleasure travellers, as a rule?—I would agree, with the qualification that the majority are workers.

2174. I should have expected you to agree with that, but I am beginning to be a bit anxious as to what you will agree. Very few people use the early morning fare concession except those who have got to travel at those hours. Would you agree that?—Yes.

2175. So that your view of the result of the withdrawal of this concession is that for London Transport Executive these people who have to travel, or most of whom have to travel, who are not on the line for fun in the early morning, will be lost to the extent of 10 per cent. of that traffic? That is right, is it?—In constructing this table I have assumed that I would lose 10 per cent. of the traffic on London Transport railways if these powers were applied.

2176. That is all I am talking about?—That was not clear.

2177. That is the heading of the column, "London Transport Executive Railways". The loss is 10 per cent.—Yes.

2178. So one in ten of these passengers who have to travel are going to desert London Transport railways; is that right?—I am tempted to use that word "eventually" again. You are talking of something that is actually going to happen and it seems to me you are putting the question as though it was going to happen tomorrow. I may be quite wrong.

2179. I am not putting it as if it is going to happen tomorrow. All I am putting is that your application is based on calculations produced by you, not me, which show an assumed loss of passengers of 10 per cent. I am not suggesting tomorrow?—That calculation assumes a loss of one in ten of the early morning passengers.

2180. Lost for ever to the Transport Executive?—Yes, I am afraid that is how it works out.

2181. You see, that is why I am just wondering why you would not accept it from me that if you have to cut your programme a little bit, the best thing might not be, if you have to drop anything, to drop this removal of the early morning concession. We take a different view from

you about the social angle, but it also seems to us rather an extravagant waste on your part to lose one passenger in ten for the sake of getting rid of your early morning fares. Do you agree?—No, I do not, I would like to answer that question a little more fully, if you will bear with me. We, as transport operators, dislike raising fares and dislike losing passengers, but we are in the dilemma of having to run our undertaking on an even-keel, and it is London Transport's duty, and the Commission's duty in respect of the London area, to make their undertaking pay, to have it on a proper financial basis. We cannot go on living in debt, so to speak. We cannot go on without adequate resources, and the whole of these proposals are put before the Tribunal in order that our undertaking may be put on a proper financial basis, by which I mean one by which the passenger who uses the service pays the cost of his ride and no more. It is an unfortunate fact—but it has to be faced nevertheless—that when you put up fares some proportion of the traffic drifts away from your undertaking. It is a dilemma. I had difficulty in agreeing that priority should be given to early morning fare passengers in the circumstances which you were contemplating. We are faced with the need for more money, and these proposals are designed to spread that need over all classes of our traffic, and I think we have done fairly by each class. I am sorry to have taken so long.

2182. Not at all. All I put to you—and I think you understood me, in fact I think you answered it—is this: Just supposing for the moment, without any impertinence to anybody, that the Tribunal were to come to the conclusion that £10.6m. was a little too much and that, perhaps £9m. was nearer the mark—supposing that were the position. I am only taking these figures in order to suggest to you—because it is my clients' view—that the right thing to do if you were only allowed £9m. would be to leave the early morning fares alone. Do you not agree?—I would not agree.

2183. That remains a matter in the field of argument. I want, if I may, to see where we are with regard to early morning fares in relation to your proposal to charge double fares on all-night buses, because, again, it may be that the London County Council are more tender-hearted than you, but they have a nasty feeling that quite a lot of workmen travel on the buses which are, in fact, all-night buses?—I had some figures got out on that.

2184. Before you start on anything like that, is it the fact that most of the people who travel on the all-night buses are working people?

(President): Working at what?

2185. (Mr. Milner Holland): That I am going to ask Mr. Harbour. I do not know. (To the Witness): Is it right to say that most of the people who travel on all-night buses are workers rather than revellers?—I do not think I would agree with "most". It is very difficult when travelling on an all-night bus to identify the travellers according to their occupations, but I do not think it would be true to say that most of them were workers. I would be prepared to say that the majority of the people using these services are workers.

2186. It is only a difference between "most" and "the majority"?—Yes.

2187. I thought we were up against some real difficulty. May I just read to you Mr. Fay's question, which you accepted, but when I put the same question you do not accept it. Mr. Fay's question, Question 428, was: "But predominantly"—which is a very fine sounding word, particularly in Mr. Fay's mouth—"you think they are used by workers" and you agreed, so I thought when I said most of them were workers you would agree again, but no, you do not agree with it. You were in agreement with Mr. Fay, because your answer was: "The majority of people using them are workers"?—I have been consistent, I would regard it as the majority.

2188. You were really saying "no" to Mr. Fay just as you are saying "on" to me; is that right?

(Mr. Fay): He has given you the same answer as he gave me.

(The Witness): I am not saying "no" to either of you, I am using my own words.

2189. (Mr. Milner Holland): I thought when Mr. Fay put the question he might possibly have some inclining what

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[Continued]

the answer was going to be, because it often happens with your own witness, though not always. Your answer to the question "But predominantly you think they are used by workers?" was "The majority of people using them are workers" and Mr. Fay does not seem to have been surprised with that answer, so I think he might have thought you were assenting to his question?—May I add that I think the difference between myself and yourself and Mr. Fay is as to the proportion of workers on this all-night bus traffic. I would put it at about 75 per cent. of the total, but your use of the word "most" would pitch it round 99 per cent.

2190. I do not resent your interpreting words in my mouth as meaning something rather exaggerated, but we will leave the point. You think 75 per cent. of the people using the all-night buses are workers?—About that. I have not real evidence, but that is my estimate.

2191. Do you want to qualify it at all, because, if so, please do and then we will be at the end of this section of the cross-examination?—No.

2192. 75 per cent. of all the people using the all-night buses are workers, the rest are on pleasure bent; is that right?—Yes.

2193. There is no complete answer, is there, to when the all-night buses stop and the ordinary services begin, it differs at different parts?—Yes, it does, and there is an overlap between the two.

2194. Could you give me an indication when that is, generally?—I am sorry, I do not quite follow you.

2195. At what period of the early morning, broadly speaking, allowing for an overlap, would you expect the all-night buses to stop and the early morning buses to begin?—It varies in different sectors of London, of course, but, taking it over-all, the all-night buses finish between 6 and 7 and the first buses on the ordinary services are starting up between 5 and 6. There is that overlap.

2196. The period of overlap is somewhere between 5 and 7 in the morning?—The incidence of it varies, of course, sector by sector.

2197. Is the man who comes out to work at, say, 5 o'clock in the morning at present faced with a choice between a service charging an early morning fare and a service charging the ordinary fares?—He may be, yes. I know of certain buses that leave Becontree, early buses, at about 6 o'clock and there would be an all-night bus as well.

2198. If he has to get to work very early he will have to use the all-night bus because there is no other method—that is if he uses London Transport at all?—Yes.

2199. There is no other transport?—No, although we were just now envisaging some overlap and I referred to a case in Becontree where an all-night bus and an ordinary bus would leave within a short time of each other.

2200. My question was this: If he starts early enough, that is to say, before the ordinary service begins, he will have to take the all-night bus, or walk, or bicycle, or buy one of your hated rivals the Lambretta's?—Yes.

2201. If he is leaving at 5 or 6 in the morning he may—and we cannot do more than generalise—have a choice of an all-night bus and the ordinary bus?—Yes.

2202. And where he can get on an ordinary bus he is going to get an early morning fare at the moment?—Yes.

2203. Now he is going to be faced with a very different alternative, is he not? The alternatives are either double the increased ordinary fare, eventually, or the ordinary fare?—If they were applied.

2204. "Eventually" that means?—No. I think the situation which you are envisaging is just not sound from the point of view of operating economics. It would be just crazy, as part of the morning provision, to have early morning buses working in with the all-night buses to cater for the same traffic. If that occurs to any significant extent at a particular place—and I can think of Becontree as one of them—the present all-night bus, so described, leaving Becontree at about the time people are travelling to and from work will obviously be used to carry the passengers.

2205. You mean you will take the label off the bus and it will not be an all-night bus?—Yes. It would be grossly unfair to contemplate a situation in which one

bus leaves Becontree at 6 a.m. which has been an all-night bus and, consequently, would have a fare of double the rate. I think that is impracticable and we have contemplated making adjustments to avoid that.

2206. I am relieved to hear you say that, but, without imputing any wickedness to anybody, my clients are a Local Authority which considers it has a very wide responsibility to the citizens and on the face of your Scheme that was, I agree a not very likely, but a possible answer. The man who at present can leave Becontree to go to his work on an all-night bus at, perhaps, 3 or 4 in the morning will have to pay double the enhanced ordinary fare, will he not?—Yes.

2207. That man, at present, may have a choice between an all-night bus at ordinary fare, or an ordinary bus in which he can get an early morning fare, but in future he will have to pay, in any event, the enhanced ordinary fare; that is right, is it not? He may not have to pay the double fare because, as you say, you would not like to keep the all-night label on a bus which was going to be used by a large quantity of working people, but even the man who at present gets the early morning fare is going, eventually, to get a double fare because he is going to have his early morning concession removed and he is going to have to go on to an ordinary fare which itself has been increased?—Yes; it would be a double blow.

2208. That is the point I wanted to ascertain I was right about before I addressed argument to the Tribunal. While we are on the all-night buses themselves, that is a service in a place where there is, in fact, no competition, is it not?—There is no competition from public transport, other than taxicabs, private contract operators—I do not think there are any more.

2209. I am not talking of the possibility that a particular person might buy his own Rolls Royce, but there is no competition in the same class of transport? You can answer that "yes", can you not?—Yes.

2210. Do you not think it is an undesirable thing to charge differential rates for the same services; that is to say, a double rate for a bus which carries the same person from the same place to the same place?—I do not think it is an undesirable thing. I regard this provision of bus services running throughout the night as a special service.

2211. (President): Are the drivers paid special rates for nightwork?—Yes, they get an enhanced rate of pay, but against that, of course, we are using the same bus as we use during the day and the costs of operating our all-night services are not greatly in excess of the average cost of the day-time services; but the traffics are so miserable, that is where the losses are being made, and yet the service fulfills a useful function and appears to be a public requirement.

2212. (Mr. Milner Holland): I thought you would be the first to acknowledge that. I think we all follow that it may not be a very lucrative part of London Transport's undertaking and, in fact, it obviously is not; but London Transport is one of those undertakers who provides a public service, and obviously must have some unremunerative parts?—I agree that, but one has got to have regard to the balance. There must be a proper balance maintained between the remunerative and the unremunerative services, and in this case this is a service provided on a highly unremunerative basis.

2213. You see, Mr. Harbour, what troubles us a little bit about this—and I daresay you will tell us we are quite wrong—is this: The total all-night fare does figure on your additional tables, on Appendix "C" to BH 15?—Yes, it figures in two places, I think. I think it is also in Appendix "G". It is divided into two parts.

2214. Of course, the figures are quite small, but on Appendix "C" you show the gross yield of double fares on all-night services as £67,000 and the discounted yield as £41,000?—Yes.

2215. I did not work this out, so it is almost certainly right: that is a 39 per cent. loss of traffic?—Yes.

2216. What is Appendix "G"?—That is the balance.

2217. Appendix "G" is the additional money going into the early morning budget for charging double fares on all-night services?—Yes.

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[Continued]

2218. They are the people you, so to speak, throw off the all-night buses?—They are the people who now travel on the ordinary buses to get the advantage of an early morning fare on those buses.

2219. Now you can travel on an all-night bus and get an early morning concession?—Yes. May I mention one thing? I think you said just now that the figures that are shown on Appendix "G", the £67,000 and the £41,000, indicated a 39 per cent. loss of traffic?

2220. (President): Appendix "C" you mean?—I am sorry, yes. It is a loss of added revenue, I think.

2221. (Mr. Milner Holland): But if you say that doubling your all-night fares would give you £67,000, it means that that is what you get at present from all-night fares?—Oh, no.

2222. From the traffic on the all-night buses?—No. That £67,000 is the additional revenue we would get from applying the powers in full without any loss of traffic. It is added revenue.

2223. I think you are misunderstanding me. As you are doubling the fares it means the present revenue from the people who travel at this time is £67,000 and 100 per cent. added comes to an additional £67,000.—Near enough. I qualify it because the present rate must be increased first of all by the adjustment to the ordinary fares proposed by the Scheme. The £67,000 is the doubling of the two. The existing revenue is, I think, £75,000 and if that were brought up to the level implied in this Scheme for ordinary fares it would become £81,000.—I explained this in my evidence. The £81,000 is additional revenue coming from the doubling of the revised present fares.

2224. Mr. Harbour, I will put it to you—and if necessary I may call a witness to give some figures about it—in this way: Is the result of your computation this, that there will be a 39 per cent. loss of traffic due to the doubling of the all-night fares?—No.

2225. What is the percentage?—It is a 39 per cent. loss of the gross yield. What that is in terms of traffic I would have difficulty in working out. The 39 per cent. is the ratio between the £67,000 and the £41,000, the amount of the additional revenue, but that does not mean to say that 39 per cent. of the all-night traffic now being carried would be lost.

2226. For the moment I am not accepting that answer. It seems to me if you show a discounted yield you only arrive at it by an assumption that a certain number of people who are at present travelling will cease to travel; that is right, is it not?—That is right.

2227. If the figure you think you would get if everybody continued their old habits is £67,000, and if the figure you think you will get when you allow for their absence is £41,000, I should have thought that indicated a 39 per cent. loss of traffic, but you say not?—I say not. I think I can prove that, if you look higher up, by the way in which we have discounted the yields for the other fares. If you look at the second line on Appendix "C" you will see the movement of the existing 1½d. fare to 2d., producing a gross yield of £310,000 and a net yield of £248,000, a difference of £62,000, about a 20 per cent. discount. But that is not to say that 20 per cent. of the traffic is lost; in point of fact, it is 5 per cent.

2228. Do go on; you have broken off when you were becoming interesting. If you assume only 5 per cent. of the passengers will go, where does the other 15 per cent. revenue loss come from? What is that due to?—I think there is a misunderstanding between us. In the first line here it is assumed that 5 per cent. of the passengers will be lost outright, and it means that if you convert the total receipts from that fare—here shown as £930,000—into passengers by dividing them by 1½d. in order to find out the number of passengers, and you deduct from the resulting figure 5 per cent., you are left with a number of passengers which, if you multiply it by 2d., will give you another figure £248,000 in excess of the original £930,000 with which you started. The gross-yield is applying the full increase to all the passengers, not to 95 per cent. of them. 20 per cent. is the difference between the gross yield and the discounted yield.

2229. I follow that because, of course, in that case your fare is going up from 1½d. to 2d. and you have got

to make a calculation, first of all, of what is the number of passengers you will lose, and then, having found you lose 5 per cent., you multiply that up by 2d. to find out how much revenue you get, and you get £248,000. That is because your left-hand column is 1½d. and your second column is 2d. and you assume a loss of 5 per cent. of the passengers and multiply it up by 2d. Of course so many passengers at 1½d. is worth so much and rather fewer passengers at 2d. is worth something else?—Yes.

2230. I quite follow that. It, perhaps, does not matter because the amount involved is very small but if your two figures were just a case of one being double the other, that would not happen, would it? You see, in doubling the all-night fares your first column would be, whatever it is, say, 6d., the next column would be 1s., and if you lose as much as 30 per cent. of the revenue you must be losing that many passengers, must you not?—I am no mathematician, but I do not think you would. But are we not talking about rather small figures?

2231. I agree we are and I am most anxious not to take a lot of time over small points, because I do not think it is going to assist the Tribunal. What I really wanted to know is this: It is a substantial loss of passengers?—Yes.

2232. The workers, who are 75 per cent. of this traffic, or most of them, make a journey in the reverse direction at ordinary fares, do they not?—Yes.

2233. So it is not just a matter of losing people who travel at present on your all-night buses, but, for the sake of a comparatively trivial sum of money—and I think your word was "trivial"—you are going to lose the returns of those people who will be travelling by normal fares?—Yes. Except in so far as—and I agree it is to a rather limited extent—they adjust their times.

(President): I do not quite see, for my part, why the fact a man on one journey finds he will have to pay double what he has been paying in the past should necessarily lead to the result that on his return journey he will not use the service available to him.

(Mr. Milner Holland): If he does not travel. You see, Mr. Harbour will correct me if I answer you incorrectly, but his calculation is that a certain number of passengers, due to this increase in the all-night fare by doubling, will be lost to London Transport, and the only point I was putting—

(President): What is bothering me is that, in that sense, it means they are lost to the world. Having completed their last all-night journey at an ordinary fare they will give up travelling altogether.

2234. (Mr. Milner Holland): No, they hop on their Lambretta's. That is the Transport Executive's view, not mine, but I do not challenge it. Plainly a lot of these passengers will be lost, and that means lost to London Transport. They will go to rival methods of travel, about which we heard a good deal in evidence. It may well be you may think there is a lot in that because of the comparatively easy hire purchase at the moment. These vehicles, frankly, horrify me and I do not suppose they attract you very much, but they apparently attract a lot of people who can take the weather and they go away from London Transport. (To the Witness): Please comment on what I have said, Mr. Harbour. That is right, is it not? You are assuming that quite a substantial number of these people will be lost to London Transport?—We are, yes.

2235. The only point I wanted to make, if I may further answer you, Sir, is this: they are passengers who, whilst at present travelling out or in on an all-night bus, come back on an ordinary service and pay an ordinary fare. So you lose their not very welcome presence on the all-night buses, but you also lose their fare on the return?—It is an unfortunate fact that fares increases do divert the traffic to other means of transport.

2236. I am very sorry to take up a little time, but these are, to those instructing me, important questions of principle. I want, if I may, to ask you one or two questions about season tickets. The season ticket increases which will eventually emerge from these powers, if granted, show an assumed loss of 7½ per cent. of your travellers on London Lines?—Yes.

2237. And 5 per cent. of your travellers on London Transport Executive?—Yes.

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2238. Do you face that prospect with equanimity?—No, I do not face it with equanimity, but it is an inevitable consequence of a fares increase. That is the dilemma the Transport undertaking is in. As I said just now, London Transport needs money now if we are to pay our way, and we must have money. The same applies to London Lines. If fares are to go up we must face this. It has happened in the past; it has been our experience with each fares increase.

2239. I do not know that it is a very appropriate expression to use, but you are faced by a law of diminishing returns, are you not? Where is it going to end?—That is really what my question is. Will it end in no passengers; is that right?—No, I do not think so. I am hoping and praying that one day we shall reach a position of stability and we shall have an opportunity to consolidate our position; but we have been living, in these last few years, in an extremely difficult atmosphere with extremely difficult conditions.

2240. I am putting it to you with absolute seriousness and not for the purpose of scoring any debating point, but does it not appall you that you are contemplating eventually, but presumably not many years hence, the loss of $7\frac{1}{2}$ per cent. of your season ticket travellers on London Lines? Does that not really appall you?—I am a hardened transport operator and I have seen these things happen in the post-war years. I do not like it, but it is a thing in the management of London Transport, as I see it, that we have got to face. We think it will happen.

2241. You think it will happen and I do not challenge that it will happen when these fares go up to the figure you have asked for authority to put them up to. You say so, and who is to contradict you?—I sincerely believe that these estimates are right. I think it will happen. It is an unfortunate consequence, but I see no other way out.

2242. One other way might be this, not at this time to apply the purist principles of high finance to London Transport. You see, of your increases some £3m. is to provide a replacement reserve, is it not?—Yes.

2243. And that is a large proportion of the increase you want from London Transport Executive buses, more than half, is it not?—That is so.

2244. When we know what the position is today, do you not think that it might be wiser not to try now, for the first time, to apply the principles of replacement reserve with these horrible consequences to your traffic?

(Mr. Fay): It is not the first time.

2245. (Mr. Milner Holland): It is a matter of argument. I withdraw "for the first time" if it gives rise to any objection, and I ask the question again: Do you not think that now, with the consequences which you rightly deplore so heavily of losing $7\frac{1}{2}$ per cent. of your season ticket holders on London Lines, it might be the wrong time to apply strictly correct principles of replacement reserve,

etc.?—I do not think so. I think they should have been applied from the very beginning.

2246. I daresay, Mr. Harbour, but what I am putting to you is that on your own estimates—which I have no doubt are correct in this respect—doing what you contemplate is going to lose you a very substantial number of your passengers, on whom, after all, you do depend, do you not? Do you not agree that to the London Transport Executive the real goodwill of the passenger is the best reserve for London Transport?—I would certainly agree that this undertaking of London Transport could not flourish without the public's goodwill, and the value of it just cannot be quantified.

2247. There is more to it than the loss of season ticket holders. Is not the season ticket one of your best insurances against the motor car competition, about which you have told us?—I do not think so.

2248. Once a man has got a season ticket he tends to use it and not use other means of transport?—If you mean the best insurance for the next month, that is so; but season ticket holders transfer to private transport.

2249. Once your season ticket holder has bought himself this nasty little car you never get him back, do you, you have lost him for good and all?—I do not know. We lose him by and large. He comes back to us sometimes on wet days.

2250. But not as a season ticket holder. Is there not also this as regards season tickets, that your season ticket holders also provide you with a certain amount of useful staple revenue at the terminus; that is to say, the short bus journey which you get from the season ticket holders? He tends to buy a season ticket to the terminal and then usually use the bus as well?—I agree with that so far as season ticket holders on British Railways are concerned. For a substantial proportion of the passengers who arrive at our main line terminals there is a supplementary journey.

2251. That is the point I was seeking to bring out. If you lose these season ticket holders on London Lines, you not only lose them as fare-paying season ticket holders, but the buses, with which you are also concerned, also lose them as short distance travellers?—Not necessarily. I am finding an increased user of buses and underground railways in London by people coming up to London by private cars and having perforce to leave their cars some distance away from their work. So the supplementary journey may still be necessary by public transport.

(Mr. Milner Holland): That is all I want to ask about season tickets, Sir, and I wondered whether you contemplated adjourning about 4 o'clock before I start on another subject.

(President): I had contemplated sitting a little later, but if you have reached the end of a part of your cross-examination it might be convenient to adjourn now.

(Adjourned until to-morrow morning at 10.30.)

CORRIGENDA

PROCEEDINGS, FIFTH DAY—TUESDAY, 3RD FEBRUARY, 1959

Page 111, Exhibit BH 15, Appendix D, column 2—for "Year's Receipts at Charges" read "Year's Receipts at Existing Charges"

Page 115, Exhibit C 2 (Passenger Receipts), column 2, line 10—for "1,989,257" read "1,988,257"

Page 115, Exhibit C 2 (Passenger Journeys), column 4, line 6—for "546,237,660" read "456,237,660"

Page 115, Exhibit C 2 (Passenger Journeys), column 6, line 13—for "1,427,520" read "1,247,520"

Page 120, Exhibit BH 17 (revised), December 29–31 (3 days), Weekly deviation from budget—for "16" read "–16"

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Printed and published by
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